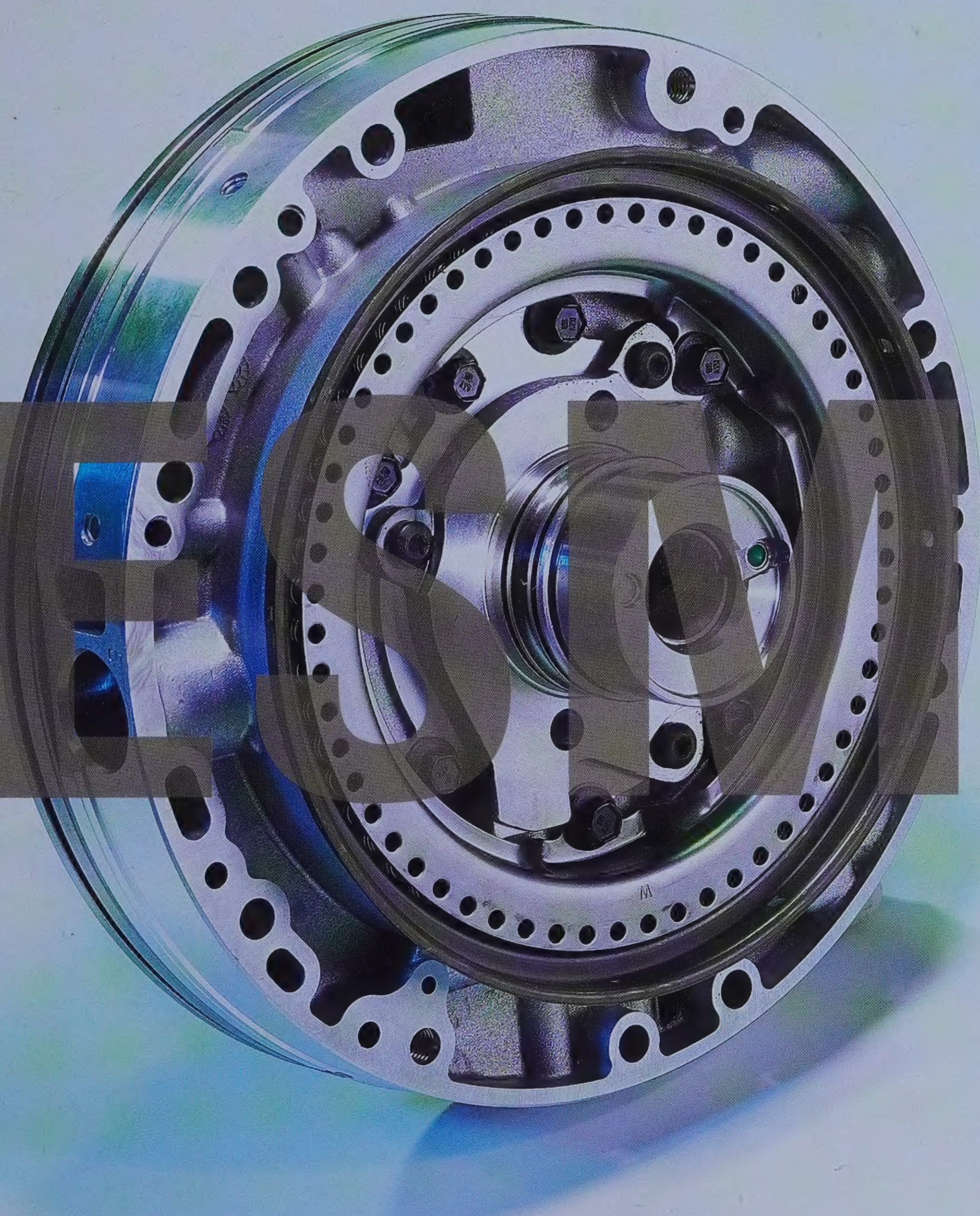


TESMA

TESMA INTERNATIONAL INC.

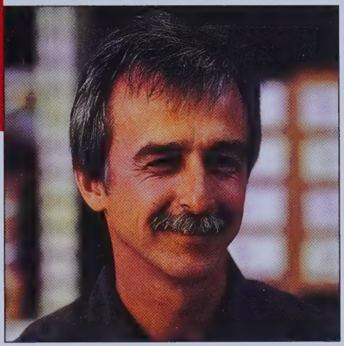
ANNUAL REPORT 2002

AR → 02

Forward-Looking Statements

This Annual Report may contain "forward-looking statements" within the meaning of applicable securities legislation. Such statements involve certain risks, assumptions, uncertainties and other factors (as described in Tesma International Inc.'s (Tesma) Annual Information Form, Form 40-F and other public filings) which may cause Tesma's actual future results and performance to differ materially from those expressed or implied herein. Tesma expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements to reflect subsequent information, events, results, circumstances or otherwise.

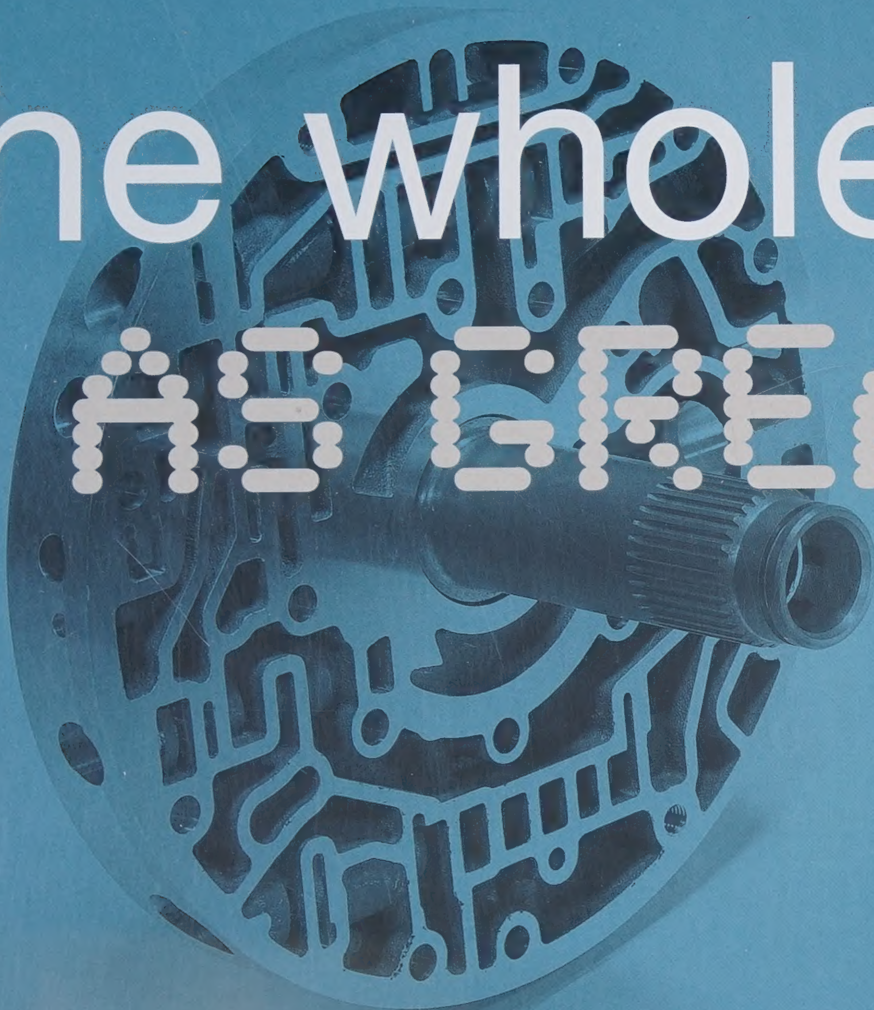
MANUFACTURING SUCCESS



Anthony E. Dobranowski
President & Chief Financial Officer

"2002 marked another year of record growth for Tesma, as we continued to execute our strategies and continued your Company's growth into a recognized leading global supplier of technologically advanced powertrain modules and systems. As President, I am committed to providing our customers with the highest quality products where and when they need them. This focus, combined with our entrepreneurial culture of performance and innovation, will continue to generate industry-leading growth, increased profitability and ultimately enhanced value for our shareholders."

The whole is AS GREAT



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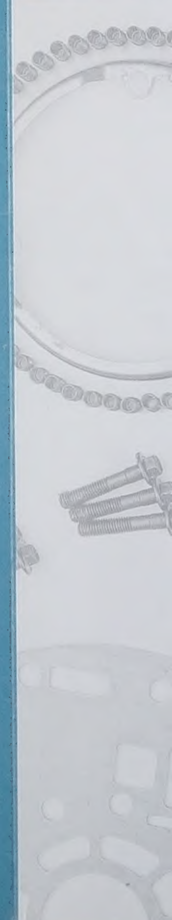
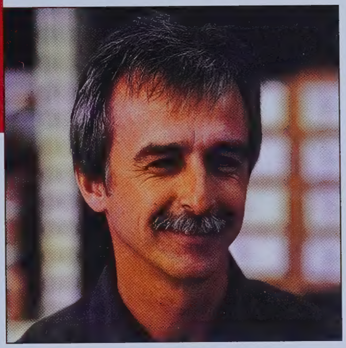


Tesma designs, engineers, tests and manufactures technologically-advanced powertrain components, modules and systems for the global automotive industry. Tesma employs more than 4,700 people in 24 facilities located in North America, Europe and Asia.

Through strong customer relationships with each of the "Global Six" major automotive Original Equipment Manufacturers (OEMs) – GM-Fiat-Subaru-Saab-Isuzu-Daewoo; Ford-Volvo-Land Rover-Mazda; DaimlerChrysler-Mitsubishi-Hyundai; Toyota; VW Group and Renault-Nissan-Samsung – Tesma continues to leverage significant benefits from industry trends in consolidation, globalization and product modularization.

MANUFACTURING SUCCESS



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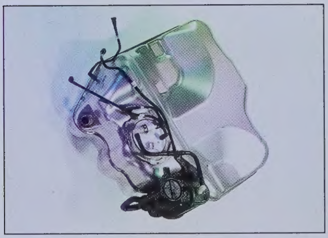
Since our initial public offering in 1995, Tesma has grown to become a leading producer of powertrain components, modules and systems to the global automotive industry. Our product focus, supported by our advanced design, engineering and testing expertise, and our extensive processing and manufacturing capabilities, have led to strong and long-term customer relationships with the world's leading vehicle manufacturers. Building on our enviable track record of growth and performance, we will continue to focus on our competitive strengths to achieve our ultimate vision – to transform Tesma into the world's leading Tier 1 supplier of advanced powertrain modules and systems to the global automotive industry.

A High-Potential Market

The trend to outsourcing complete vehicle modules and systems has been accelerating within the global automotive industry. OEMs have focused their resources on vehicle design and marketing activities, realizing manufacturing efficiencies and generating cost reductions that are critical to their competitive positions. Outsourcing in the powertrain sector, however, has been one of the least exploited outsourced segments of the automotive business and offers the greatest opportunity for growth. For example, despite our significant track record of growth, Tesma currently represents approximately 1% of the estimated US$120 billion global powertrain systems business. As a result of significant investments in our technologies, our facilities and our people, Tesma is strongly positioned in what has now become one of the highest-growth outsourced sectors of the automotive industry.

Building on Our Strengths

To capitalize on this considerable opportunity, Tesma will continue to leverage the numerous competitive advantages that we have developed over the past seven years.



Our strong technology and product focus, combined with our heritage of high-return R&D efforts, has built a high-value portfolio of proprietary products and technologies that has propelled Tesma to a leading position within the engine, transmission and fueling product areas. In fact, a significant majority of our sales during 2002 were derived from unique products that were first designed and developed by Tesma, and going forward, we will continue to introduce innovative solutions to our global customer base.

Another key Tesma strength is the solid and enduring working relationships we have developed with the world's leading automotive manufacturers. By interacting on a daily basis with our customers at all levels of their organizations, we continue to help them meet evolving consumer demands and regulatory requirements by developing engine, transmission and fuel technology products that are highly energy efficient, lighter in weight and more cost-effective to produce.

Our strict focus on product also differentiates Tesma from many of our competitors. Our extensive processing capabilities, combined with our expertise in working with numerous different materials, permit us to offer the best and most efficient means to meet the needs of our customers. In addition, our recognized design, engineering and testing capabilities and expertise have enabled us to provide true "one-stop shopping" for our customers throughout their product and project lifecycle.

Tesma's decentralized operating structure is another strong competitive advantage. By providing our operating units with sufficient flexibility and autonomy, we have created an environment of innovation and entrepreneurship that has led to many important process and product improvements. In addition, through employee share ownership programs and significant profit participation, we have ensured that the focus of everyone at Tesma is directly aligned with all of our shareholders.

Industry-Leading Performance

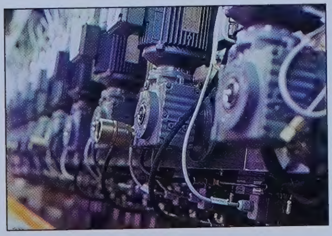
Tesma's strong competitive advantages translated into industry-leading financial performance once again in fiscal 2002. With 28 consecutive quarters of record sales (on a comparative year-over-year basis), Tesma remains a growth leader in the automotive parts supplier industry. Since 1998, sales have risen by 20% on a compound annual basis, surpassing our peer group's growth rate of approximately 17%. While acquisitions have contributed to this success, our ability to win new business and increase our presence with existing customers have been the key reasons for our 148% increase in North American (including Mexico) content per vehicle, rising from $21.77 in 1998 to $54.02 in 2002. The fact that our sales growth continues to surpass overall vehicle production growth in both North America and Europe is strong proof that our strategies are working.

Tesma also continues to generate industry-leading returns as, despite the infrastructure and R&D investments made during the year, profit margins, return on assets and return on equity exceeded our peer group in 2002. This solid operating performance, combined with the completion of a successful public equity offering that raised just less than $100 million, has further enhanced Tesma's strong financial position and provided the Company with the cash resources and flexibility to build on our record of success.

A number of operational achievements were also accomplished during the year. We made significant progress in realigning our group management structure, placing increased emphasis on engineering and testing within each of our Engine, Transmission and Fuel Technologies Groups. To further strengthen this focus, our research and advanced product development activities have also been reorganized at the group level to more fully leverage the significant knowledge and expertise of our people.

Important new business wins were achieved during the year, totaling approximately $300 million (at full production volumes by 2006), including an important new front engine cover module program, our first North American fuel tank assembly and new awards for transmission and engine oil pumps. Other new business includes significant complex stamping business that utilizes our unique die-forming technology, as well as new supply arrangements with all of the Global Six vehicle manufacturers. In addition, almost 25% of our new business wins in fiscal 2002 were with non-traditional OEMs, a fact that bodes well for future growth and demonstrates our ability to expand our market presence and customer base beyond the Global Six.

Several new key products were launched in fiscal 2002, including alternator decouplers and balance shafts at our Engine Technologies Group; flow-formed clutch housings, accumulator pistons and shaft housings at our Transmission Technologies Group and stainless steel fuel filler tubes and our first PZEV stainless steel fuel tank at our Fuel Technologies Group. These and many other new products launched over the past few years are important examples of how Tesma has brought design, engineering and innovation to our customers and to our industry.



Progress was also made in executing our strategy of moving up the value chain in our specific product areas by transitioning from a components manufacturer to a supplier of complete, value-added modules and assemblies. In fiscal 2002, approximately 75% of our sales were derived from these types of products, up from 65% last year.

In fiscal 2002, we made important strides in enhancing the quality of our products and our processes. During the year, we introduced and adopted Six Sigma at a number of our divisions, ensuring that quality and continuous improvement will remain an integral part of all we do at Tesma. As a result of our efforts, we received enhanced quality ratings with a number of our customers, while our internal quality measurements continued to steadily improve.

In addition, we achieved significant and ongoing improvements at a division that had not been meeting our standard of performance. Going forward, we will continue to focus our attention on achieving additional improvements at facilities across the entire organization.

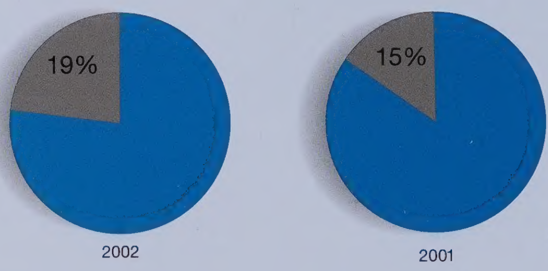
A Carefully Evolved Growth Strategy

Looking ahead, we will continue to build on our past success by executing a number of clearly articulated strategies and key imperatives that have been evolving since 1995.

We will continue to expand our focus on the design, engineering, testing and manufacture of value-added, highly engineered and proprietary products. This emphasis, combined with our close working relationships with our customers, will enable us to move further up the value chain and meet the accelerating industry trend toward powertrain outsourcing, as well as growing customer demand for complete engine, transmission and fuel technology modules and systems.

Our extensive customer relationships will also generate increased new business opportunities as OEMs around the world recognize the quality and cost-competitiveness of our products. Additionally, our focused sales and marketing programs will broaden and extend our customer base, providing new opportunities for growth in a number of different markets, geographic regions and product areas.

R&D Spending as a Percentage of Income before Income Taxes



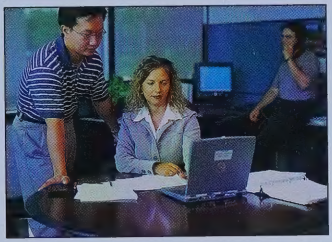
We will accelerate our growth and financial performance by identifying and pursuing unexploited opportunities within our specific areas of product expertise. Our advanced R&D programs are geared to generating new and innovative products that meet the industry's – and our customers' – evolving needs. We will also extend our presence in new and related product areas, including complete front engine cover modules, water management systems, fuel tank and refueling modules and clutch pack assemblies. By leveraging our current and newly-developed product capabilities, we will continue to build on the impressive industry-leading growth in our content per vehicle generated over the past years.

We will exploit new opportunities in our numerous geographic markets. In fiscal 2002, we made progress in expanding our business in Asia and we continued to win new business through our strong position in North America, including our increasing success with the "New Domestic" OEMs whose North American market share continues to grow.

We are developing and executing a number of strategies to accelerate our capacity and capabilities in European markets to create the critical mass necessary to generate profitable growth. We are also investigating the viability of establishing engineering, testing and manufacturing operations in other important markets such as Mexico and South America.

To facilitate these plans, we are examining opportunities to acquire new products and technologies either through acquisitions or the development of joint venture relationships with partners that share our culture of quality and performance. However, we will only conclude transactions that we are confident will benefit Tesma shareholders over the long term. For example, we decided not to proceed with the Magna Steyr merger transaction in fiscal 2002 primarily because Magna Steyr's targeted growth in the vehicle assembly business did not meet our strategic powertrain/drivetrain criteria.

Finally, to provide sufficient resources to accomplish our goals, we will strive to further enhance our financial flexibility by maintaining a strong balance sheet and a strict focus on operating cash flow. The successful completion of a $100-million equity offering at year-end was an important step in this direction.



Over the short term, we will continue to enhance our product quality and delivery cycles to ensure our customers receive the best products where and when they need them. We will further strengthen our management and operating teams, leveraging our strong culture of entrepreneurship to attract the best and the brightest to the "Tesma Way". We will also continue to evolve and refine our strategic plan – to make sure our path to the future remains consistent with the goals and objectives of our customers.

Our Most Important Asset

It is through the ongoing effort and commitment of every member of the Tesma team that we will achieve our goal of becoming the world's pre-eminent powertrain supplier. Each and every day more than 4,700 experienced and dedicated employees look ahead, excited about the contribution they bring to the Company and our future success. This entrepreneurial spirit, supported by a strong and experienced management team sharing a consistent vision of the future, is our most important competitive strength. This is the key reason why we are confident that we will meet our objectives going forward and ultimately deliver enhanced value to our shareholders over the long term.

We remain very positive about our future prospects. In the short term, industry production sources validate our belief that continued growth in sales will be achieved over the next few years and our ongoing rigorous focus on costs and production efficiencies will continue to generate industry-leading profitability and returns. Over the longer term, we are confident in our ability to capitalize on the significant growth potential that exists in our markets. We have built Tesma into a solid and steady performer with a strong financial and technological foundation. We have the people, the capabilities and the facilities to become a world leader in the automotive powertrain systems sector.

On behalf of the Board of Directors and Tesma management, I would like to thank our employees, whose dedication has helped us achieve our many successes, and our shareholders for their continued confidence in the Tesma team.

A. E. Dobranowski

Anthony E. Dobranowski
President & Chief Financial Officer

CONTINUITY AND CHANGE

This year marked another important milestone in Tesma's evolution as, with a great deal of excitement and confidence, I transferred responsibility for Tesma's day-to-day operations to our newly-appointed President, Tony Dobranowski.

left to right:
Daniel Nickle
Vladan Markovich
Heidi Garcia
Lynn Riley

As a part of our management and operational restructuring, Tony will work closely with our realigned senior management team, which includes Pat Cerullo, Paul Manners, Jim Moulds, Steve Proniuk, Jon Enoae and Sam Bozzo. The senior management team is further augmented by Daniel Nickle as our Director of Information Technology, Vladan Markovich as our Executive Director of Quality and Continuous Improvement, Heidi Garcia as our Director of Human Resources and Lynn Riley as our Manager of Investor Relations.

Under Tony's leadership, Tesma possesses an extremely well-rounded and experienced management team, one that I believe is among the best in the business.

In my new position as Vice Chairman and Chief Executive Officer, I will continue to interact with management and the Board of Directors on strategic issues affecting Tesma's future, including the development of new products and technologies, strategic relationships and other business opportunities.

In addition, as Executive Vice Chairman of Magna International Inc. (Magna), I will also direct my attention to ensuring that Tesma, as a member of the Magna family of companies, fully capitalizes on the significant benefits arising from its affiliation with one of the world's leading auto parts suppliers. Tesma will have access to Magna's significant buying capacity and powerful brand identity, as well the opportunity to migrate Magna's world-class technologies, processes and innovative ideas to its own operations. This strong relationship will also offer Tesma numerous growth opportunities through Magna's market presence and significant mergers and acquisitions activity.

I look forward to working with Tony and his management team to realize Tesma's vision to become the world's pre-eminent powertrain systems supplier.

Manfred Gingl
Vice Chairman & Chief Executive Officer

The Management Team

left to right:
Saverio Bozzo: Group Vice President, Operations, Tesma Transmission Technologies
Paul A. Manners: Executive Vice President & Chief Operating Officer
Jon Enoae: Group Vice President, Operations, Tesma Engine Technologies
Anthony E. Dobranowski: President & Chief Financial Officer
Stefan T. Proniuk: Vice President, Secretary & General Counsel
James L. Mou[illegible]: Vice President, Finance & Treasurer
Pasquale Cer[illegible]: Executive Vice President, Sales, Marketing & Corporate Development

THIS IS TESMA

Tesma's reputation is based, first and foremost, on the products we produce. We have significant presence within the world's automotive industry as a valued supplier of high-quality components, systems and modules. Tesma has the processes, the technology, the expertise and the global reach to identify and fully leverage existing and emerging opportunities in our industry.

High-quality components, systems and modules.


3124↑ PARTS

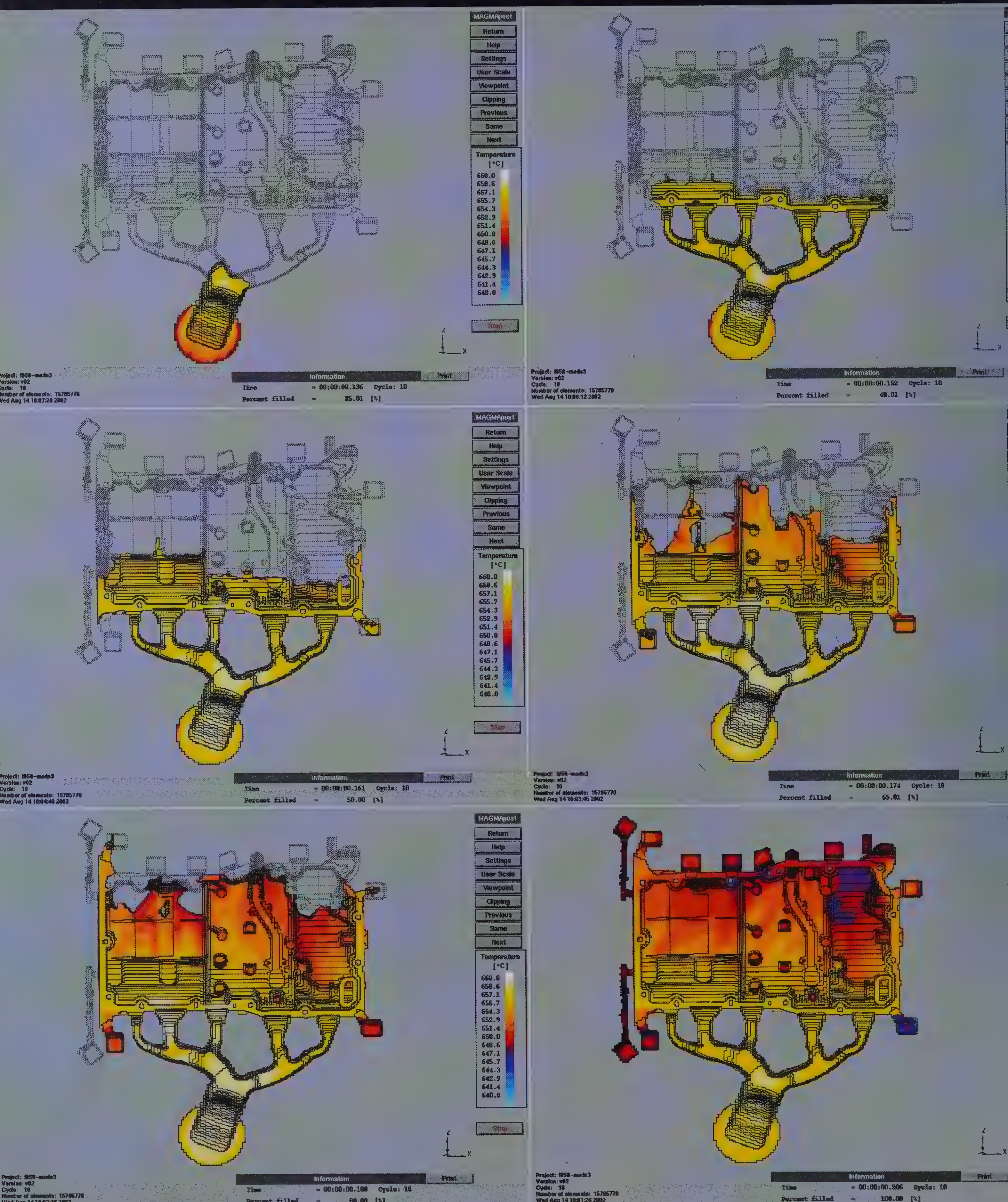
The oil pump lubricates the transmission, which transfers power from the engine to the wheels of your car and makes it go. When it's a Tesma oil pump, it's a better car.

ONE STANDARD

Tesma manufactures thousands of individual parts. We then use these products to assemble a wide array of modules and systems for the world's leading vehicle manufacturers.

To us, the quality of each part, each module and each system is the foundation of our success. This emphasis applies not only to our products, but also to our corporate structure and to our management team.

Dedication to quality is one of our core strengths and has made the Tesma name synonymous with *performance*.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Temperature [°C]
660.0
658.6
657.1
655.7
654.3
652.9
651.4
650.0
648.6
647.1
645.7
644.3
642.9
641.4
640.0
Stop
Information
Print
Time = 00:00:00.136 Cycle: 10
Percent filled = 25.01 [%]
Information
Print
Time = 00:00:00.152 Cycle: 10
Percent filled = 40.01 [%]
MAGMApost
Return
Help
Settings
User Scale
Viewpoint
Clipping
Previous
Same
Next
Temperature [°C]
660.0
658.6
657.1
655.7
654.3
652.9
651.4
650.0
648.6
647.1
645.7
644.3
642.9
641.4
640.0
Stop
Information
Print
Time = 00:00:00.161 Cycle: 10
Percent filled = 50.00 [%]
Information
Print
Time = 00:00:00.174 Cycle: 10
Percent filled = 65.01 [%]
MAGMApost
Return
Help
Settings
User Scale
Viewpoint
Clipping
Previous
Same
Next
Temperature [°C]
660.0
658.6
657.1
655.7
654.3
652.9
651.4
650.0
648.6
647.1
645.7
644.3
642.9
641.4
640.0
Stop
Information
Print
Time = 00:00:00.188 Cycle: 10
Percent filled = 80.00 [%]
Information
Print
Time = 00:00:00.206 Cycle: 10
Percent filled = 100.00 [%]

For every perfectly tuned system, where every part is working to the exact standards for which it was designed and crafted, there will always be a way to make it work better.

DEVELOPMENT

There is more to servicing a customer relationship than meeting that customer's requirements. By doing more than we are asked, Tesma works to anticipate, explore, develop, invent, innovate and, ultimately, to satisfy.

Tesma's R&D teams are continually faced with new environmental, safety, cost, space and fuel economy challenges. Our ongoing investments in technology, equipment and intellectual capital keep us at the forefront of industry trends.


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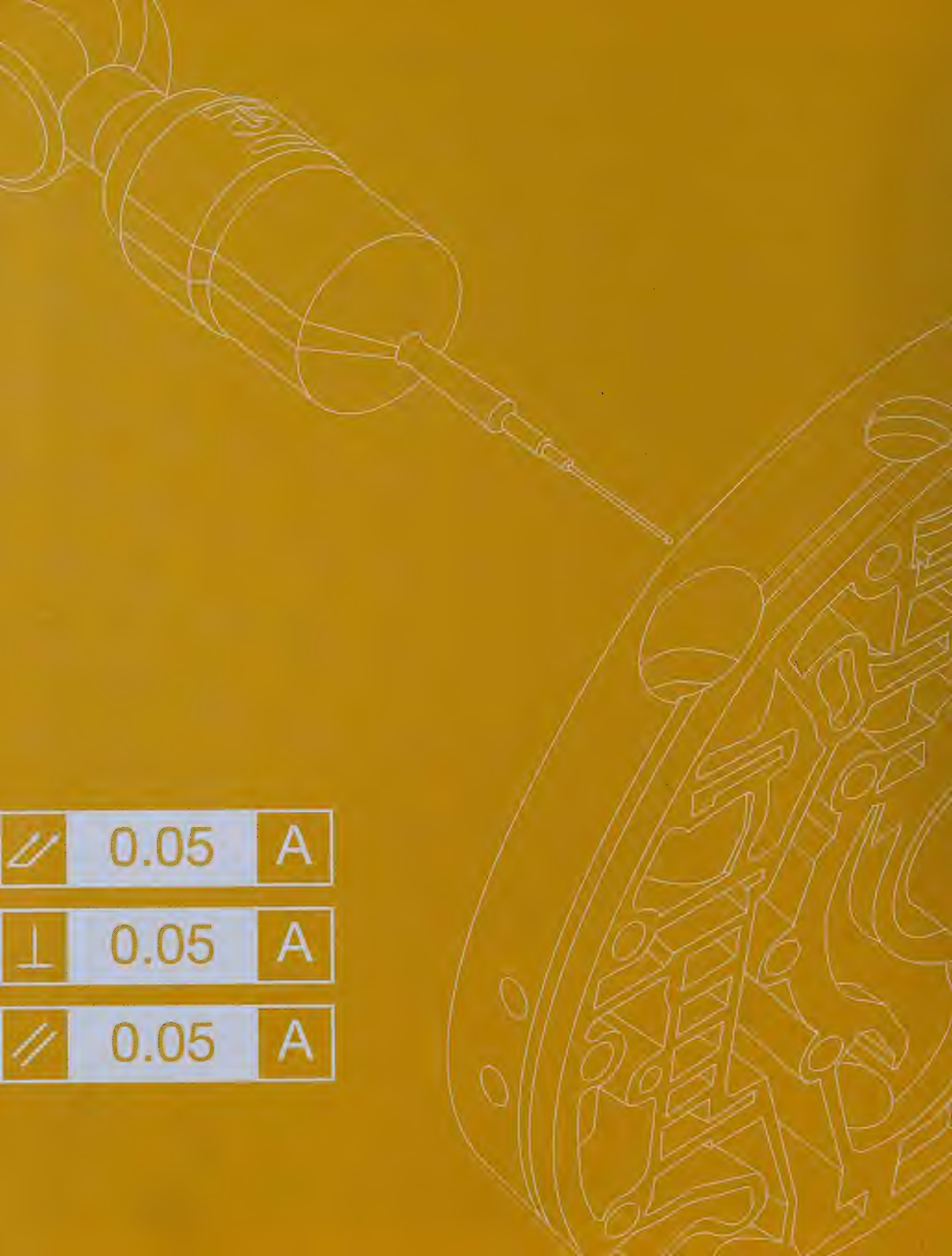
Sab
M.S.M.

SHIFT

PRODUCTION

Located in Europe, North America and Asia, Tesma's manufacturing facilities provide our customers with global reach. Operated as independent profit centres, Tesma plants utilize extensive processing capabilities that include injection molding, roll forming, stamping, flow forming, die casting, fineblanking and machining.

With state-of-the-art processes as well as enhanced testing protocols and technologies, Tesma is dedicated to employing the most efficient methods of production.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A micron is a dimension approximately one 80th the diameter of a strand of human hair. At Tesma, the standards of our work are measured to within a single micron.

PRECISION

The requirement for precision within the automotive industry becomes clear when you consider the number of parts that must work together to build a car and to ensure it is both safe and efficient. Every Tesma process is designed to satisfy these demanding and precise requirements.

That's why every Tesma product is tested to ensure that it meets and exceeds these high standards. That's why Tesma's employees are skilled and qualified – to ensure that each Tesma part and system meets the exacting requirements of our customers and our industry.

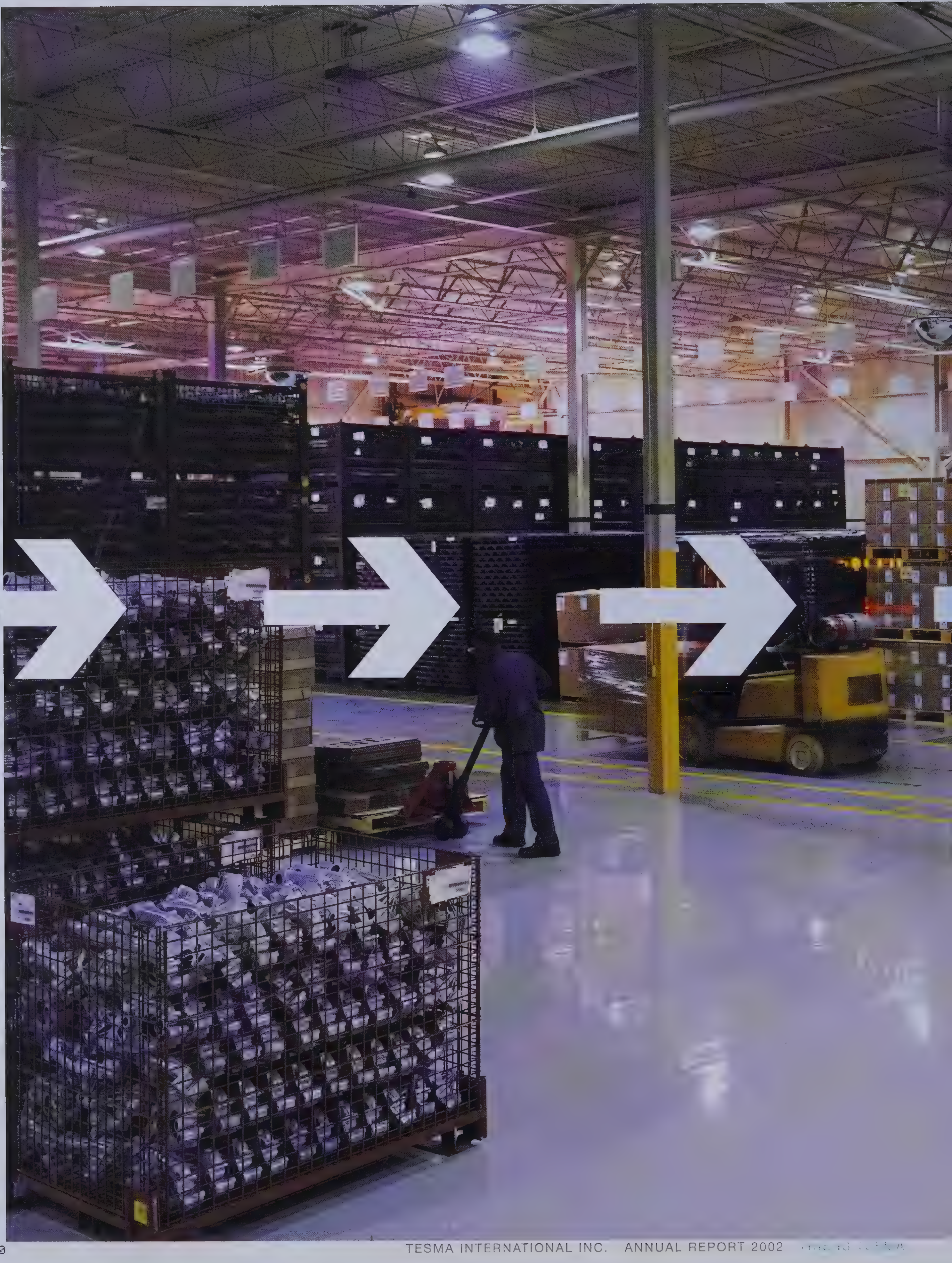

ABB

In manufacturing, productivity is measured by both the quality of the product and the efficiencies employed throughout its production. At Tesma, yesterday's productivity is not good enough for tomorrow.

PRODUCTIVITY

At Tesma we are dedicated to maximizing the return on our investments through the design and implementation of efficient and cost-effective production systems. We use a variety of tools to measure our manufacturing efficiencies and focus on factors such as overall equipment effectiveness and up time, cycle time reductions and scrap minimization.

By always working to identify and implement the right combination of functional applications, and by always looking for the better way, Tesma has built a culture of performance and continuous improvement.



PRODUCT

Each and every day tens of thousands of Tesma products are shipped to our automotive customers around the world. This significant daily turnover from our shipping departments demonstrates the vitality and scale of our Company and has resulted in sales of over $1.3 billion in 2002.

Our strength is in our customer relationships. These enduring associations have grown out of our superior engineering and product development capabilities, precise manufacturing standards, efficiently run production facilities, productively managed processes and our ongoing focus on quality. From this strong foundation, Tesma will continue to grow and prosper.

Tesma at a Glance

	→ 2002 OPERATING HIGHLIGHTS	→ PRODUCT OFFERINGS	
Engine Technologies 	Increased customer base for existing product lines Expanded product line to include more value-added assemblies and modules Continued successful launch of new business Intensified continuous improvement activities (Six Sigma, Process/Productivity, Waste Reduction, Quality & Delivery Performance Improvements)	Front End Accessory Drive Systems Accessory and Timing Drive Tensioners Steel, Phenolic and Aluminum Pulleys Idler Assemblies Front Cover Modules Engine Oil Pumps	Water Pumps Cooling Management Systems Overrunning Alternator Decouplers Cam Covers Variable Camshaft Phasing Systems Engine Oil Pan Assemblies Engine Balance Shaft Assemblies
Transmission Technologies 	Launched various new products including continuously variable transmission (CVT) cylinders for ZF in Europe and aluminum clutch pistons for General Motors Launched Six Sigma throughout our facilities which advocates continuous improvement, cost reduction and advancement in processes Developed new generation clutch for transfer case applications Successfully moved into a new oil pump assembly facility	Automatic Transmission Clutch Housings and Shaft Assemblies Flow-Formed Clutch Housings Cam Die-Formed Transmission Shells Torque Converter Damper Assemblies Oil Pump Assemblies Die-Formed Oil Pan Assemblies Aluminum Die Cast and Machined Case Extensions	Servo Piston and Accumulator Assemblies Roller Die-Formed Drive Hubs and Housings Fineblanked Products, Separator Plates and Backing Plates Flexplates Reaction Shells CVT – Pistons, Plungers and Clutch Housings
Fuel Technologies 	Focused R&D initiatives, including the development of low permeation capless filler systems, filler pipes and fuel tank assemblies to meet Low Emission Vehicle legislation (LEV II) and Partial Zero Emission Vehicle legislation (PZEV). Launched a variety of new filler pipe programs in North America and Europe Expanded manufacturing and testing capabilities at a new Michigan facility to support North American business growth Continued successful R&D in material and welding technologies for new fuel tank and filler pipe business	Fuel Caps Fuel Filler Inlets and Valves Capless Filler Systems Stainless Steel Fuel Filler Pipes Stainless Steel Fuel Tank Assemblies Vent and Fill Tubes	

Tesma Global Performance

OPERATING [illegible]	[illegible]		[illegible]		ASIA AND SOUTH AMERICA	
	JULY 31		JULY 31		JULY 31	
	2002	2001	2002	2001	2002	2001
SALES	$ 1,058.9	$ 948.3	$ 253.6	$ 219.7	$ 46.4	$ 45.6
INCOME BEFORE INCOME TAXES	$ 116.1	$ 103.6	$ 10.5	$ 17.2	$ 1.5	$ 3.4
CAPITAL ASSETS	$ 301.0	$ 250.3	$ 90.1	$ 63.9	$ 38.5	$ 34.8
MANUFACTURING FACILITIES	15	15	5	5	2	2
EMPLOYEES	3,400	3,280	1,100	1,020	200	200

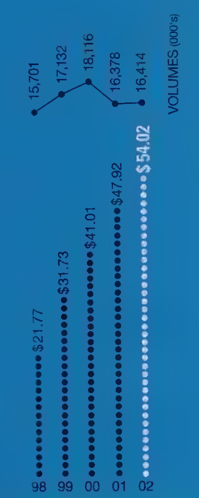
(CANADIAN DOLLARS IN MILLIONS)

→ MAJOR CUSTOMERS	→ STRATEGY
General Motors (including Fiat, Saab, Isuzu) Ford (including Volvo, Mazda, Jaguar) DaimlerChrysler (including Mitsubishi, Hyundai) Volkswagen Group Honda Toyota Renault-Nissan-Samsung	Capitalize on Tesma's component manufacturing expertise/capabilities and further integrate to value-added assemblies and modules Expand customer base in Europe and Asia, as well as North America for front cover modules, cooling management systems and oil pump assemblies Continue to develop full-service capabilities by enhancing design, development, testing and validation capabilities at both the component and systems level Continue to expand benchmarking capabilities for cooling and engine systems products Continue to develop unique and innovative products
General Motors Ford (including Mazda) DaimlerChrysler Allison Transmission ZF Renault-Nissan-Samsung	Expand engineering and testing capabilities to include complete clutch pack assemblies Continue to pursue and expand content in the precision aluminum transmission die-cast components area Continue to pursue value-added sub-assemblies for CVT programs Expand transmission oil pump assemblies to include unique variable flow technology for CVT applications Continue to develop unique and innovative products
General Motors (including Fiat) Ford (including Volvo) DaimlerChrysler Volkswagen Group BMW	Provide leadership in the development and market introduction of innovative fuel system solutions and material applications Expand filler pipe and fuel tank business in Europe and North America Provide customers with improved fuel system permeation and corrosion performance and reduced waste through improved recyclability Continue to develop unique and innovative products

SALES (CDN $M)

NET INCOME (CDN $M)

SHAREHOLDERS' EQUITY (CDN $M)



NORTH AMERICAN (incl. Mexico) CONTENT PER VEHICLE (CDN $) RELATIVE TO VOLUMES

Tesma around the World

Sales and Manufacturing Locations

CUSTOMERS


FY 02

MANAGEMENT'S DISCUSSION & ANALYSIS

Tesma International Inc. (Tesma or the Company) designs, engineers, tests and manufactures technologically-advanced powertrain (engine, transmission and fuel) components, modules and systems for the global automotive industry. Employing over 4,700 skilled and motivated people in 22 manufacturing and two research facilities located in North America, Europe and Asia, Tesma is leveraging its strong product focus, extensive processing capabilities and established customer relationships to generate industry-leading sales growth and superior financial performance.

The following management's discussion and analysis of the consolidated operating results and financial position of Tesma for the years ended July 31, 2002 and 2001 (MD&A) should be read in conjunction with the accompanying consolidated financial statements and notes found on pages 33 through 61 of this annual report.

OVERVIEW

Tesma generated another solid year of revenue growth in fiscal 2002 while maintaining strong profitability. A steady North American automotive market, in particular in the second half of the fiscal year, helped fuel this growth, offset somewhat by a decline in the European market.

The Company continued to execute its strategy of expanding production of value-added powertrain modules and systems as a full service supplier. During the year, Tesma launched various new programs including alternator decouplers and balance shafts in its Engine Technologies Group, its first North American fuel filler tube assemblies and a new rear axle crossover component in Europe. In addition, over the next few months the Company will be launching its first fuel tank assemblies in Europe, a complex transmission oil pump in North America and various other new transmission, engine and fuel system modules and components.

Tesma has also been successful in developing business with new customers, evidenced by new supply arrangements with Honda and Nissan achieved during the year and recently awarded business with Hyundai, which the Company views as a strategic customer.

Tesma's financial position remained strong throughout the year and was improved further by the proceeds of a successful share offering completed in July 2002. Management intends to utilize this financial strength to focus the Company's resources on continued innovation through research and development (R&D), aggressively pursuing opportunities for cost improvements and production efficiencies, and furthering Tesma's presence in the global marketplace through strategic acquisitions and other joint venture arrangements.

BUSINESS ACQUISITIONS

Effective December 31, 2001, the Company increased its ownership interest in STT Technologies Inc. (STT), a jointly controlled entity, to 75% through the acquisition of an additional 30% interest for nominal cash consideration. The transaction was accounted for using the purchase method. Pursuant to agreements executed concurrent with the purchase, the remaining shareholder of STT has the option to purchase an additional 25% equity ownership interest from the Company at any time prior to August 1, 2004 at a formula price. During the period that the option remains outstanding, the Company and the remaining shareholder each retain the right to nominate one of the two directors of STT.

As a result of this transaction, Tesma consolidated an additional 30% of the revenues and expenses of STT in its results from the date of acquisition and an additional 30% of STT's assets and liabilities are now included in the Company's consolidated balance sheet at July 31, 2002.

ACCOUNTING CHANGES

Effective August 1, 2001, the Company adopted the Canadian Institute of Chartered Accountants (CICA) new recommendations under Handbook Section 3062, "Goodwill and Other Intangible Assets". The new rules require non-amortization of existing and future goodwill and intangible assets that meet the criteria for indefinite life. Accordingly, the Company ceased recording goodwill amortization upon adoption of the new standard. Instead, the Company must determine on an annual basis whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairments are then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill.

In accordance with the new recommendations, the Company prospectively applied these new rules without restatement of any comparative periods. However, if retroactively applied, net income attributable to Class A Subordinate Voting and Class B Shares for the comparative years ended July 31, 2001 and July 31, 2000 would increase by $1.7 million and $1.6 million, respectively. Similarly, basic and diluted earnings per Class A Subordinate Voting Share or Class B Share would each have been approximately $0.06 higher in each of the comparative years.

The Company has performed the required fair value assessments of the reportable segments to which underlying goodwill has been attributed and determined that no charge for impairment of goodwill is required for the year ended July 31, 2002.

RESULTS OF OPERATIONS

Vehicle Volumes (in millions of units)

			Change	
	2002	2001	Units	%
North America	**16.4**	16.4	unch.	unch.
Europe	**16.0**	16.8	(0.8)	–5%

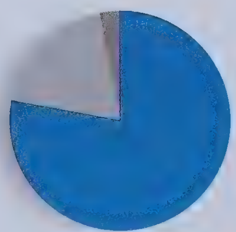
Production volumes in North America increased by 36,000 units, or 0.2%, to 16.4 million units. Among the North American "Big Three", aggressive incentive campaigns were launched earlier in the year fueling demand, especially for General Motors (GM), our largest customer where production volumes for the year were up 4%. In Europe, production volumes for the year approximated 16.0 million units which was down over 800,000 units or 5% compared to 16.8 million units in the prior year.

Sales

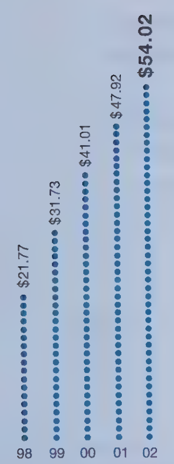
	2002	2001	Change
North America	**$1,058.9**	$ 948.3	+12%
Europe	**253.6**	219.7	+15%
Asia	**46.4**	45.6	+2%
Intersegment	**(17.3)**	(11.5)	
Total external sales	**$1,341.6**	$1,202.1	+12%

Consolidated sales in fiscal 2002 increased 12% from fiscal 2001 to a record $1.342 billion. North American sales rose 12%, while sales increased 15% in Europe. This strong growth occurred despite only a nominal increase in North American vehicle production volumes for the year and a softening of the European market which negatively impacted production.

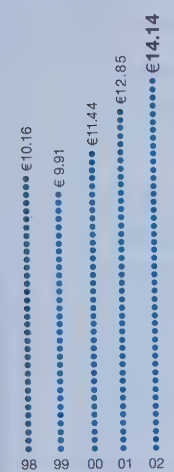
The increase in sales at Tesma's 15 North American manufacturing facilities reflects higher volumes on the Vortec 4200 engine used in GM's SUV family, increased volumes and content on the GM L850 and Line 6 engine programs, Ford's Modular V8 engine program and significant volume increases on various coolant management system programs. In addition, the sales increase reflects higher volumes on the GM 1/2 accumulator cover and stator shaft programs, increased volumes on certain tensioner and alternator decoupler programs, increased exports to Europe and a stronger U.S. dollar, offset by pricing concessions to various OEM customers, and a lower realized exchange rate on euro denominated export sales. North American sales represented 78% of total sales in fiscal 2002, consistent with the prior year.



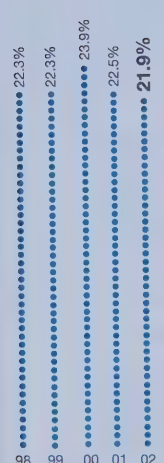
Tesma's 5 European manufacturing facilities experienced higher sales in fiscal 2002, despite the decrease in vehicle production in the market. This growth was fueled by a strengthening of the euro relative to the Canadian dollar, which contributed an estimated $13.4 million of the increase. In addition, the sales increase reflects the launch and ramp up of a new rear axle crossover component for DaimlerChrysler, higher tooling sales mainly associated with the upcoming fuel tank program launches for the Volkswagen Group (VW Group) and Volvo and stronger demand for service and aftermarket parts, offset by the decrease in European vehicle production volumes. Europe represented 19% of total sales in fiscal 2002 compared to 18% in the prior year.



.A. CONTENT PER VEHICLE
(INCLUDING MEXICO)
(CDN $)



EUROPEAN CONTENT
PER VEHICLE
(EUROS)



GROSS MARGIN
AS A % OF SALES

Increased sales at Tesma's 2 South Korean facilities are primarily the result of the ramp up of volumes for an oil adapter for GM and oil pumps for the VW Group, both launched in the fourth quarter of the prior year, and higher demand in the Korean domestic market, offset by slightly lower volumes on the FN oil pump shipped to Ford in the U.S. and a weakening of the Korean won relative to the Canadian dollar. Asian sales represented 3% of total sales in fiscal 2002, down from 4% in the prior year.

Overall tooling and other sales increased 3% in fiscal 2002 to a record $78.0 million, reflecting Tesma's ongoing involvement in new customer programs, upcoming product launches and the continued expansion of its product offerings in all markets.

During fiscal 2002, the net impact of fluctuations in foreign currencies increased sales by approximately 1% (a 2% decrease was experienced in fiscal 2001), primarily as a result of the increase in the value of the euro and U.S. dollar relative to the Canadian dollar.

Sales to North American customers increased 11% to $924.6 million compared to $831.1 million in fiscal 2001, and represented 69% of consolidated sales in fiscal 2002. Tesma's North American content per vehicle increased 13% to over $54 from $48 a year ago due to the specific programs discussed above. Sales to European-based customers grew 14% to $365.2 million compared to $321.5 million in fiscal 2001, and represented 27% of consolidated sales. European content per vehicle increased by approximately 10% to €14 compared to €13 a year ago reflecting the new programs launched for European customers. Sales to Australasian customers increased by 10% to $34.2 million in fiscal 2002 compared to $31.1 million in fiscal 2001, and represented approximately 3% of consolidated sales. The economic environment in South America remained challenging in fiscal 2002 and, as a result, Tesma's sales to customers in this region decreased by 4% to $17.6 million and continue to account for approximately 1% of Tesma's consolidated sales.

Sales to GM, Ford, DaimlerChrysler and the VW Group, Tesma's four largest customers, were 76% of total sales, consistent with the prior year. GM represented 42% of consolidated sales compared to 40% in fiscal 2001. No single product accounted for more than 10% of Tesma's consolidated sales in fiscal 2002 or 2001. Approximately 12% of Tesma's consolidated sales represented a number of products produced for GM's GENIII engine program, compared to 14% of sales associated with this program in the prior year.

On a product-line basis, Tesma Engine Technologies sales increased to $920 million compared to $843 million a year ago and accounted for 69% of consolidated sales compared to 70% a year ago. The growth was the result of increased sales of tensioners and decouplers, volume increases in the water pump and die-casting businesses in North America, increased volumes for plastic coolant management products in the North American market and an increase in service and aftermarket sales in Europe.

Sales of Tesma Transmission Technologies products rose 15% to $328 million from $285 million a year ago and represented 24% of total sales in fiscal 2002, consistent with the prior year. The increase is primarily due to the volume increases for the flow-formed rotating clutch housings for the Allison LCT transmission, the GM 1/2 accumulator and stator shaft programs, and the launch of a reaction shell for GM.

Tesma Fuel Technologies sales increased by 27% to $94 million from $74 million in fiscal 2001, driven in part by a strengthening euro relative to the Canadian dollar, as a significant portion of this group's operations are located in Europe. Also contributing to the increase were higher tooling sales, primarily associated with the upcoming launches of the stainless steel fuel tank assemblies involving two of the Company's divisions. Tesma Fuel Technologies sales represented 7% of consolidated sales in fiscal 2002 and 6% in fiscal 2001.

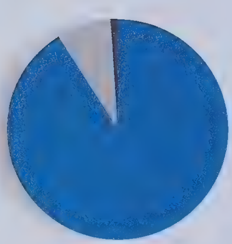
Gross Margin

	2002	2001	Change
Sales	**$1,341.6**	$1,202.1	+12%
Cost of goods sold	**1,047.3**	931.9	+12%
Gross margin	**$ 294.3**	$ 270.2	+9%
Gross margin percentage	**21.9%**	22.5%	–3%

Gross margin as a percentage of sales declined 3% in fiscal 2002 to 21.9% compared to 22.5% a year ago. The positive impact of improved operating efficiencies at the Company's North American die-casting facility compared to the prior year (when significant operating and production issues existed), growth in content per vehicle in both North America and Europe and improvements at certain other facilities were more than offset by higher group engineering and development

costs, production volume declines in Europe, higher infrastructure and support costs at various facilities preparing for program launches, customer pricing concessions, lower tooling margins in the current year, annual wage increases, continued losses at the Company's German die-casting facility and an increase in R&D spending.

Gross expenditures on R&D in fiscal 2002 were $24.4 million, $5.5 million higher than the prior year. Customer and government funding and tax credits reduced R&D expenses by $6.2 million. Gross spending on R&D amounted to 19% of profit before tax in fiscal 2002 up from 15% in fiscal 2001, exceeding Tesma's Corporate Constitution requirement of investing no less than 7% of profit before tax in R&D.



INCOME BEFORE INCOME TAXES BY SEGMENT

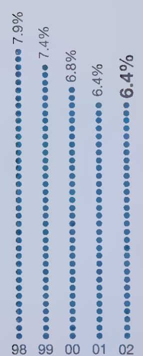
NORTH AMERICA (91%)
EUROPE (8%)
ASIA/SOUTH AMERICA (1%)

Income before Income Taxes

	2002	2001	Change
Gross margin	**$ 294.3**	$ 270.2	+9%
less:			
Selling, general and administrative	**85.3**	77.4	+10%
Depreciation and amortization	**58.7**	51.6	+14%
Interest, net	**4.0**	1.7	+135%
Affiliation fees and other charges	**18.2**	15.3	+19%
Income before income taxes	**$ 128.1**	$ 124.2	+3%

Income before income taxes increased by 3% to $128.1 million in fiscal 2002 compared to $124.2 million in fiscal 2001. The increase in gross margin was partially offset by higher non-cash charges for depreciation, increased affiliation fees and other charges paid to Magna International Inc. (Magna), increased selling, general and administrative (SG&A) costs and interest.

Income before income taxes at Tesma's North American operations increased 12% to $116.1 million or 91% of consolidated income before income taxes compared to $103.6 million or 83% in fiscal 2001. Tesma's European operations contributed $10.5 million or 8% of consolidated income before income taxes compared to $17.2 million or 14% a year ago. The Asian and South American operations which include local sales and engineering offices, contributed $1.5 million in income before income taxes in 2002 compared to $3.4 million last year.



SG&A AS A % OF SALES

SG&A expenses increased to $85.3 million in fiscal 2002 compared to $77.4 million in fiscal 2001, approximating 6.4% of sales in both years. The higher SG&A expenses in fiscal 2002 primarily resulted from additional personnel hired to further develop the Company's corporate and group structures and to support operations with new program launches, higher expenses at the Company's European operations due to the higher average exchange rates used to translate their SG&A expenses to Canadian dollars, $0.6 million of transaction costs related to the abandoned merger between Tesma and the Magna Steyr Group, severance costs and an increased share of the SG&A expenses of STT. These increases were only partially offset by lower marketing costs, a net recovery of accounts receivable balances previously provided for and higher foreign exchange gains in the current year compared to fiscal 2001 when a foreign exchange translation loss of $3.4 million relating to dividends paid by a foreign subsidiary was realized.

Depreciation and amortization expense increased by 14% to $58.7 million or 4.4% of sales in fiscal 2002 from $51.6 million or 4.3% of sales in fiscal 2001. The increase resulted from the $220 million of capital asset additions over the past two years incurred to support new business, offset by the elimination of goodwill amortization under the new CICA rules.

Net interest expense increased to $4.0 million in fiscal 2002 compared to $1.7 million in fiscal 2001 due primarily to lower levels of cash and cash equivalents for the majority of fiscal 2002 resulting in a reduction in the amount of interest income earned.

Affiliation fees and other charges paid to Magna increased by 19% to $18.2 million in fiscal 2002 compared to $15.3 million in fiscal 2001 and included the following:

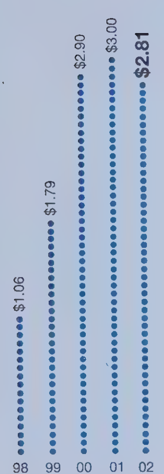
- Under an affiliation agreement with Magna, the Company pays an affiliation fee in exchange for, among other things, Magna granting the Company a non-exclusive world-wide licence to use certain Magna trademarks, and Magna providing certain management and administrative services (including utilization of Magna's foreign exchange forward credit facilities, if needed and as available) to the Company. In fiscal 2002, the Company paid $13.4 million under the affiliation agreement, an increase of 12% compared to $12.0 million in fiscal 2001, entirely

as a result of the Company's higher sales. The existing affiliation agreement was set to expire on July 31, 2002, however, an extension of this agreement was negotiated with Magna effective August 1, 2002 for a term of seven years and five months expiring on December 31, 2009. Under the terms of the extended agreement, affiliation fees payable to Magna will continue to be calculated as 1% of the Company's consolidated net sales. However, the new agreement provides for a limited moratorium on the sales from acquired businesses in that there will be no affiliation fee payable on net sales generated from acquired businesses in the fiscal year of the acquisition and only 50% of the normal affiliation fee will be payable on such net sales in the following fiscal year. The full affiliation fee will be payable on net sales from acquired businesses in all subsequent years.

- Under the terms of a social fee agreement, the Company pays Magna a social fee of 1.5% of pretax profits. In fiscal 2002, the Company paid $1.9 million which was substantially unchanged from the prior year. This amount represents a contribution to social and charitable programs coordinated by Magna on behalf of Magna and its affiliated companies, including the Company. The social fee agreement (expiring July 31, 2002) was renewed with Magna, on the same terms, for a period of seven years and five months, expiring December 31, 2009.
- Other specific charges are negotiated annually and are based on the level of benefits or services provided to the Company by Magna Services Inc. (Serviceco), a wholly-owned subsidiary of Magna. Such services include, but are not limited to, information technology (WAN infrastructure and support services), human resources services (including administration of the Employee Equity Participation and Profit Sharing Plan), foreign marketing services, finance, treasury and legal support, management and technology training and an allocated share of the facility and overhead costs dedicated to providing these services. In fiscal 2002, the Company paid $2.9 million, a 107% increase over the $1.4 million paid in fiscal 2001 due in part to a $0.6 million reimbursement of additional costs billed by Serviceco for services provided in fiscal 2001.

Net Income and Earnings per Share

	2002	2001	Change
Income before income taxes	$ 128.1	$ 124.2	+3%
Income taxes	44.3	35.4	+25%
Net income attributable to Class A Subordinate Voting Shares and Class B Shares	$ 83.8	$ 88.8	−6%
Earnings per Class A Subordinate Voting Share or Class B Share			
Basic	$ 2.85	$ 3.04	−6%
Diluted	$ 2.81	$ 3.00	−6%
Average number of shares outstanding (in millions)			
Basic	29.5	29.2	+1%
Diluted	29.8	29.6	+1%



DILUTED EPS
(CDN $)

Tesma's effective income tax rate increased to 34.6% in fiscal 2002 compared to 28.5% last year. However, the effective tax rate in fiscal 2001 was significantly impacted by one-time tax recoveries totaling $9.4 million that were realized as part of a tax planning strategy implemented in the fourth quarter of the year. Excluding these tax recoveries (and related foreign exchange translation losses realized), the effective income tax rate in fiscal 2001 was 35.1%.

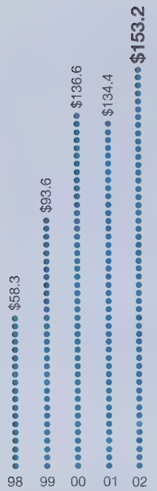
Tesma's net income attributable to Class A Subordinate Voting Shares and Class B Shares decreased by 6% to $83.8 million in fiscal 2002 compared to $88.8 million in fiscal 2001. The tax refund transactions effected in fiscal 2001 increased net income in the prior year by $6.0 million, net of the realized translation losses.

On a diluted basis, earnings per Class A Subordinate Voting Share or Class B Share decreased 6% to $2.81 from $3.00. Basic earnings per Class A Subordinate Voting Share or Class B Share also decreased by 6% to $2.85 from $3.04 in fiscal 2001. The beneficial impact of the tax refunds on fiscal 2001 basic and diluted earnings per share was $0.21 and $0.20, respectively.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash provided from (used for):	2002	2001	Change
Operating activities	$ 143.7	$ 73.5	
Investing activities	(122.4)	(99.4)	
Financing activities	56.0	(21.6)	
Effect of exchange rate changes on cash	3.8	0.1	
Net increase (decrease) in cash	$ 81.1	$ (47.4)	+271%

Cash balances at July 31, 2002, net of bank indebtedness, were $146.7 million compared to $51.0 million a year earlier. The increase was a result of cash provided from operations, proceeds from the issuance of Class A Subordinate Voting Shares through a successful public share offering completed in July 2002 and the exercise of stock options during the year, offset by capital expenditures, investments in non-cash working capital, the payment of dividends and the net repayment of debt.



CASH PROVIDED FROM OPERATIONS
(CDN $ M)

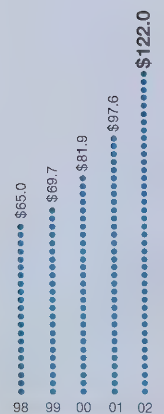
Operating Activities

	2002	2001	Change
Net income	$ 83.8	$ 88.8	
Items not involving current cash flows	69.4	45.6	
Cash provided from operations	153.2	134.4	+14%
Net change in non-cash working capital	(9.5)	(60.9)	
Cash provided from operating activities	$ 143.7	$ 73.5	+96%

Cash provided from operations, before the effect of changes in non-cash working capital, increased by 14% to $153.2 million in fiscal 2002 compared to $134.4 million in fiscal 2001 due to higher non-cash charges, mainly depreciation and future tax provisions. Cash provided from operating activities increased 96% to $143.7 million in fiscal 2002 due to significantly lower incremental investments in accounts receivable and inventory levels combined with increased levels of accounts payable and accruals in the current year compared to decreases in these balances a year ago.

Investing Activities

	2002	2001	Change
Capital asset additions	$ (122.0)	$ (97.6)	+25%
Increase in other assets	(1.7)	(1.4)	
Increased investment in subsidiaries	(0.8)	(0.8)	
Proceeds from disposal of capital and other assets	1.5	0.4	
Cash and cash equivalents acquired on additional investment in subsidiary	0.6	–	
Cash used for investing activities	$ (122.4)	$ (99.4)	+23%



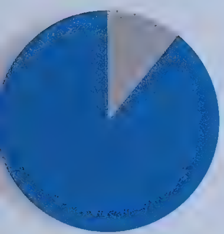
CAPITAL EXPENDITURES
(CDN $ M)

Investment spending in fiscal 2002 increased by 23% to $122.4 million compared to $99.4 million in fiscal 2001. Cash spent on capital assets increased by 25% to $122.0 million compared to $97.6 million last year, and includes $25.3 million invested in real estate consisting of a new Tesma Transmission Technologies manufacturing facility, ongoing and completed expansions at five other manufacturing facilities and the Company's new corporate offices. The balance of capital spending was used primarily for the purchase of manufacturing and assembly line equipment to support new production programs. In both fiscal 2002 and fiscal 2001, the $0.8 million paid on the purchase of subsidiaries relates to earnout payments on the fiscal 1999 Sterling Heights acquisition. The $0.6 million of cash acquired on additional investment in a subsidiary is directly related to the Company's acquisition of the additional 30% equity ownership interest in STT.

Capital spending in the five-month period ending December 31, 2002 and in calendar 2003 is expected to be in the range of $70 to $80 million and $120 to $130 million, respectively, primarily to support upcoming production contracts and launches. Management expects that cash balances on hand, existing unutilized credit facilities and internally generated funds from operations will be sufficient to meet all planned capital spending requirements for these periods.

Financing Activities

	2002	2001
Issuance of Class A Subordinate Voting Shares	**$ 98.0**	$ 1.8
Dividends	**(18.7)**	(18.6)
Decrease in bank indebtedness	**(18.3)**	(3.4)
Repayments of long-term debt	**(5.1)**	(9.8)
Issues of long-term debt	**0.1**	8.8
Surrender of stock options	**–**	(0.4)
Cash provided from (used for) financing activities	**$ 56.0**	$ (21.6)



LONG-TERM DEBT AS A % OF TOTAL CAPITALIZATION

DEBT (11%)
EQUITY (89%)

In July 2002, the Company completed a public offering of 2,850,000 Class A Subordinate Voting Shares at a price of $35.15 per share. Total cash proceeds received on the share issue, net of underwriter fees and other related costs, amounted to $95.8 million. In addition, 182,400 Class A Subordinate Voting Shares were issued on the exercise of stock options for consideration totaling $2.2 million compared to 142,600 shares issued for consideration of $1.8 million in fiscal 2001.

Tesma's Corporate Constitution requires the payment of dividends of at least 20% of after-tax profits (after providing for any preference share dividends) on a rolling three-year basis. Dividends of $18.7 million ($0.64 per share) were paid on the Class A Subordinate Voting Shares and Class B Shares in fiscal 2002, substantially unchanged from the prior year.

Funds used to repay advances on operating lines of credit were $18.3 million in fiscal 2002 compared to $3.4 million repaid under the Company's operating lines of credit in fiscal 2001.

The repayments of long-term debt in fiscal 2002 were all scheduled repayments. Tesma's ratio of long-term debt to total capitalization was a conservative 0.11:1 at the end of fiscal 2002 compared to 0.15:1 at the end of the previous year.

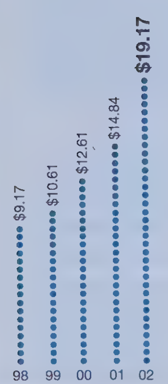
Financing Resources

At July 31, 2002, the Company had cash and cash equivalents on hand (net of bank indebtedness) of $146.7 million. In addition, the Company had unused and available credit facilities (excluding facilities available for foreign exchange purposes) approximating $107 million. Of the Company's total long-term debt of $79.6 million, only 6% becomes due and payable in the next 12 months while approximately 86% does not mature until 2006 or later.

Shareholders' Equity

During fiscal 2002, shareholders' equity increased by 43% or $185.0 million due mainly to an increase in undistributed earnings, the share issue completed in July, stock options exercised and an increase in the value of the currency translation account. As a result, the book value per Class A Subordinate Voting Share or Class B Share increased by 29% to $19.17 as at the 2002 fiscal year-end from $14.84 at the end of the prior year.

The increase in the cumulative currency translation adjustment account represents the unrealized increase in the value of Tesma's net investment in its foreign subsidiaries resulting primarily from the significant strengthening of the euro compared to the Canadian dollar since July 31, 2001 and the strengthening of the U.S. dollar, Korean won and Swiss franc compared to the Canadian dollar over the same time period.



BOOK VALUE PER SHARE (CDN $)

FOREIGN CURRENCY ACTIVITIES

Tesma's operations negotiate sales contracts and purchase materials, equipment and labour generally in the currency of the region in which the operation is located. Tesma's foreign currency cash flows for the purchase of materials and capital equipment denominated in foreign currencies are naturally hedged when contracts to deliver certain products are also denominated in those same foreign currencies. In an effort to manage the remaining exposure, Tesma employs hedging programs primarily through the use of foreign exchange forward contracts that extend through the expected duration of the underlying production programs.

The amount and timing of forward contracts are dependent upon a number of factors including anticipated production delivery schedules, anticipated customer payment dates and anticipated product costs, which may be paid in foreign currencies. Tesma is exposed to credit risk from the potential default by counterparties on its foreign exchange forward contracts, but mitigates this risk by dealing with only those counterparties considered to be high quality credits. Despite these measures, significant long-term movements in relative currency values could affect Tesma's operating results. In particular, Tesma's results, including the business activities of self-sustaining foreign subsidiaries that are not hedged, may be adversely affected by movements of the Canadian dollar against the euro, the U.S. dollar, the Korean won or the Swiss franc.

OUTLOOK

Management anticipates that North American automotive production will remain steady for the foreseeable future. For the three months ended July 31, 2002, production increased 6% compared to the same period last year. Production levels during this period were particularly strong at GM, the Company's largest customer, where "zero percent financing" campaigns were extended through July and resulted in inventory levels remaining significantly lower than the prior year. Based on industry production forecasts, management anticipates that volumes for the five-month period ending December 31, 2002 will approximate 7 million units, which is 5% higher than the same period a year ago. In Europe, management expects production volumes to remain weak for the balance of 2002 and remains cautious in its expectations, anticipating production to be substantially unchanged from the same period a year ago. Given these forecasts and Tesma's anticipated product launches and tooling sales, it is expected that the Company's overall revenue growth will be in the range of 10% for the five-month period ending December 31, 2002. Management also remains positive about the long-term prospects for the Company as industry sources indicate continued growth in OEM powertrain production, continued growth in OEM outsourcing and higher consumer usage of vehicles will drive supplier growth over the next decade. This, combined with Tesma's product strategy and focus on costs and production efficiencies, should generate improved profitability going forward.

APPROVED YEAR-END AND REPORTING CURRENCY CHANGES

The Tesma Board of Directors unanimously approved a change of the Company's year-end to December, commencing December 31, 2002. As a result of this change, Tesma will report results for the five-month period ending December 31, 2002 (the stub period). After the stub period, the annual reporting period for Tesma will be the calendar year. This will enable all stakeholders in the Company to better compare the Company's performance with its peer group in the automotive parts supply industry.

In addition, the Board also approved a change in the Company's reporting currency to the U.S. dollar effective January 1, 2003.

RISKS AND UNCERTAINTIES (FORWARD-LOOKING STATEMENTS)

This MD&A contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. The words "estimate", "anticipate", "believe", "expect" and similar expressions are intended to identify forward-looking statements. Persons reading this MD&A are cautioned that such statements are only predictions, and that Tesma's actual future results or performance may be materially different.

Forward-looking information involves certain risks, assumptions, uncertainties and other factors which may cause actual future results or anticipated events to differ materially from those expressed or implied in any forward-looking statements. In the case of Tesma, these factors include, but are not limited to: Tesma's operating and/or financial performance; the ability of the Company to finance its business requirements, including raising required funding as necessary; changes in the various economies in which Tesma operates; Tesma's relationship with Magna International Inc.; fluctuations in interest rates; changes in consumer and business confidence levels; consumers' personal debt levels; vehicle prices; the extent and nature of purchasing or leasing incentive campaigns offered by automotive manufacturers; environmental emission and safety regulations; fuel prices and availability; the continuation and extent of outsourcing by automotive manufacturers; the extent and continued use of steel as a primary material for automotive parts versus alternative materials (such as aluminum and plastics); Tesma's ability to continue to meet customer specifications relating to performance, cost, quality and service; industry cyclicality or seasonality; trade and/or labour issues or disruptions; customer pricing pressures, pricing concessions and cost absorptions; warranty, recall and product liability claims; actual levels of program production volumes by Tesma's customers compared to original expectations, including program cancellations or delays and changes in product mix; Tesma's dependence on certain engine and transmission programs and the market success and consumer acceptance of the vehicles into which such powertrain products are installed; Tesma's relationships with and dependence on certain customers; currency exposure; technological developments by Tesma's competitors; governmental, environmental and regulatory policies and Tesma's ability to anticipate or respond to changes therein; and other changes in the competitive environment in which Tesma operates. For a more detailed discussion of some of these factors, reference is made to the disclosures regarding risks and uncertainties set forth in Tesma's Annual Information Form, Form – 40F and other public filings. Tesma expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements to reflect subsequent information, events, results, circumstances or otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Tesma's management is responsible for the preparation and presentation of the consolidated financial statements and all information in this Annual Report. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, and, where appropriate, reflect estimates based upon the judgment of management. Where alternative accounting methods exist, management has selected those that it considered to be the most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis designed to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Annual Report has been prepared by management on a basis consistent with the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of Tesma.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable, and that Tesma's assets are appropriately accounted for and adequately safeguarded.

Tesma's Audit Committee is appointed by the Board of Directors annually and is completely comprised of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent Auditors' Report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards on behalf of the shareholders of Tesma. The Auditors' Report outlines the nature of their examination and their opinion on Tesma's consolidated financial statements. The independent auditors have full and unrestricted access to the Audit Committee.

Toronto, Canada
September 10, 2002

Anthony E. Dobranowski
President & Chief Financial Officer

James L. Moulds
Vice President, Finance & Treasurer

AUDITORS' REPORT

To the Shareholders of
Tesma International Inc.

We have audited the consolidated balance sheets of Tesma International Inc. as at July 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended July 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended July 31, 2002 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
September 10, 2002

Ernst & Young LLP
Chartered Accountants

SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements of Tesma International Inc. and its subsidiary entities (the Company) have been prepared in Canadian dollars following Canadian generally accepted accounting principles (Canadian GAAP). These principles are also in conformity, in all material respects, with accounting principles generally accepted in the United States (U.S. GAAP), except as described in Note 20 to the consolidated financial statements.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary entities. The Company accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany balances and transactions have been eliminated.

(c) Foreign Exchange

Assets and liabilities of foreign subsidiaries and investees, all of which are self-sustaining, are translated using the exchange rate in effect at the end of the year and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these foreign subsidiaries and investees are deferred as a separate component of shareholders' equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's investment in these subsidiaries and investees as a result of capital transactions.

Foreign exchange gains and losses on transactions occurring in a currency different than an operation's functional currency are reflected in income, except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction. Gains or losses on translation of foreign currency long-term monetary liabilities are deferred and amortized over the period to maturity.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of three months or less. Cost approximates fair value.

(f) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead.

(g) Capital Assets

Capital assets are recorded at historical cost, including interest capitalized on capital expenditures in progress, less related investment tax credits and government grants.

Depreciation is provided on a straight-line basis over the estimated useful lives of capital assets (including those under capital leases) at annual rates of 2 1/2 to 5% for buildings, 7% to 10% for general purpose equipment and 10% to 30% for special purpose equipment.

(h) Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions.

In 2002, the Company adopted the Canadian Institute of Chartered Accountants (CICA) new recommendations under Handbook Section 3062, "Goodwill and Other Intangible Assets" for goodwill and intangible assets. The new rules require non-amortization of existing and future goodwill and intangible assets that meet the criteria for indefinite life and accordingly, the Company ceased recording goodwill amortization effective August 1, 2001. Instead, the Company must determine at least once annually, whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairments are then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill.

In accordance with the new recommendations, the Company prospectively applied these new rules, without restatement of any comparative periods. However, if retroactively applied, net income attributable to Class A Subordinate Voting and Class B Shares for the comparative years ended July 31, 2001 and July 31, 2000 would have been higher by $1.7 million and $1.6 million respectively. Similarly, basic and diluted earnings per Class A Subordinate Voting or Class B Share would each have been approximately $0.06 higher in each of the comparative years.

(i) Other Assets

Costs incurred in establishing new facilities which require substantial time to reach commercial production capability are capitalized as deferred preproduction costs. Amortization is provided over periods up to five years from the date commercial production is achieved. No amounts were capitalized during the years ended July 31, 2002 and July 31, 2001.

The Company accounts for its investments in which it has significant influence on the equity basis.

(j) Revenue Recognition

Revenue from the sale of manufactured products is recognized when measurable, upon shipment to, or receipt and acceptance by, customers (depending on contractual terms). Revenues from separately priced engineering services and tooling contracts are recognized primarily on a percentage of completion basis, but in some cases, depending upon the terms of the contract, the completed contract basis may be applied.

Revenue and cost of sales are presented on a gross basis in the consolidated statements of income when the Company is acting as principal and is subject to the significant risks and rewards of the business. Otherwise, components of revenues and related costs are presented on a net basis.

(k) Preproduction Costs Related to Long-Term Supply Agreements

Costs incurred (net of customer subsidies) related to design and engineering, which are reimbursed as part of subsequent related parts production piece price amounts, are expensed as incurred unless a contractual guarantee for reimbursement exists.

Costs incurred (net of customer subsidies) related to design and development costs for moulds, dies and other tools that the Company does not own (and that will be used in, and reimbursed as part of the piece price amounts for, subsequent related parts production) are expensed as incurred unless the supply agreement provides a contractual guarantee for reimbursement or the non-cancelable right to use the moulds, dies and other tools during the supply agreement.

(l) Government Financing

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The Company also receives loans which are recorded as liabilities in amounts equal to the cash received.

(m) Research and Development

The Company carries out various applied research and development (R&D) programs, certain of which are partially or fully funded by governments or by customers of the Company. Funding received is accounted for using the cost reduction approach. Research costs are expensed as incurred. Development costs are expensed as incurred, unless they meet the criteria under generally accepted accounting principles for deferral and amortization.

(n) Income Taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(o) Stock-Based Compensation

The Company has two stock-based compensation plans which are described in Note 11. Compensation expense is recorded under the non-employee director share-based compensation plan as described in Note 11[c]. No compensation expense is recognized under the incentive stock option plan when stock options are granted to employees or directors, unless they have intrinsic value at the time they are granted. Consideration paid by employees or directors on the exercise of stock options is credited to Class A Subordinate Voting Shares.

(p) Post Retirement Medical Benefits

The Company provides a defined benefit post-retirement medical benefits plan covering eligible employees and retirees. The cost of post retirement medical benefits is determined using the projected benefit method prorated based on employment services and is expensed as employment services are rendered. Past service costs which arose upon introduction of the plan are being amortized to income over the employees' expected average remaining service lives.

(q) Earnings per Class A Subordinate Voting Share or Class B Share

Basic earnings per Class A Subordinate Voting Share or Class B Share are calculated using the weighted average number of Class A Subordinate Voting Shares outstanding during the year, plus the weighted average number of Class B Shares outstanding during the year.

Diluted earnings per Class A Subordinate Voting Share or Class B Share are calculated using the treasury stock method for the determination of the dilutive effect of outstanding options. Under this method:

- the exercise of options is assumed at the beginning of the period (or at time of issuance, if later) and Class A Subordinate Voting Shares are assumed to be issued;
- the proceeds from exercise are assumed to be used to purchase Class A Subordinate Voting Shares at the average market price during the period; and
- the incremental number of Class A Subordinate Voting Shares (the difference between the number of Class A Subordinate Voting Shares assumed issued and assumed purchased) is included in the denominator of the diluted earnings-per-share computation.

CONSOLIDATED BALANCE SHEETS

INCORPORATED UNDER THE LAWS OF ONTARIO

As at July 31	Note	2002	2001
(Canadian dollars in thousands)			
ASSETS			
Current			
Cash and cash equivalents		$ 176,759	$ 95,703
Accounts receivable	18	198,383	172,803
Inventories	4	105,829	93,735
Future tax assets	8	7,141	9,570
Prepaid expenses and other		12,279	11,091
		500,391	382,902
Capital assets	5,18	429,626	349,008
Goodwill	6	20,774	19,231
Other assets	7	8,603	7,199
		$ 959,394	$ 758,340

	Note	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	9	$ 30,053	$ 44,706
Accounts payable	18	106,316	86,581
Accrued salaries and wages	10	42,128	35,868
Other accrued liabilities	18	36,139	30,178
Income taxes payable	8	7,448	11,019
Future tax liabilities	8	19,368	2,337
Long-term debt due within one year	9	4,420	4,342
		245,872	215,031
Long-term debt	9	75,172	77,221
Future tax liabilities	8	19,144	31,863
Shareholders' equity			
Class A Subordinate Voting Shares	11	287,027	187,643
Class B Shares	11	2,583	2,583
Retained earnings		317,579	252,435
Currency translation adjustment	14	12,017	(8,436)
		619,206	434,225
		$ 959,394	$ 758,340

Commitments and contingencies (Notes 9, 13 and 19)

See accompanying notes.

On behalf of the Board:

Belinda Stronach
Director

Manfred Gingl
Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended July 31	Note	2002	2001	2000
(Canadian dollars in thousands, except per share and share figures)				
Sales	18	**$ 1,341,616**	$ 1,202,144	$ 1,127,785
Cost of goods sold	10, 18	**1,047,294**	931,896	857,757
Selling, general and administrative	14, 18	**85,283**	77,414	76,314
Depreciation and amortization	6	**58,663**	51,646	43,513
Affiliation fees and other charges	18	**18,251**	15,271	13,343
Interest, net	9, 18	**4,013**	1,697	3,271
Income before income taxes		**128,112**	124,220	133,587
Income taxes	8	**44,272**	35,425	48,693
Net income attributable to Class A Subordinate Voting Shares and Class B Shares		**83,840**	88,795	84,894
Retained earnings, beginning of year		**252,435**	186,554	120,595
Dividends		**(18,696)**	(18,552)	(15,712)
Cumulative adjustment for change in accounting policy	8	**–**	(3,945)	–
Surrender of stock options	11	**–**	(417)	(3,223)
Retained earnings, end of year		**$ 317,579**	$ 252,435	$ 186,554

Earnings per Class A Subordinate Voting Share or Class B Share				
Basic	12	**$ 2.85**	$ 3.04	$ 2.95
Diluted	12	**$ 2.81**	$ 3.00	$ 2.90

Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year [in thousands]				
Basic	12	**29,454**	29,214	28,766
Diluted	12	**29,829**	29,558	29,322

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31	Note	2002	2001	2000
(Canadian dollars in thousands)				
CASH PROVIDED FROM (USED FOR):				
OPERATING ACTIVITIES				
Net income		$ 83,840	$ 88,795	$ 84,894
Items not involving current cash flows	16	69,397	45,588	51,747
		153,237	134,383	136,641
Net change in non-cash working capital	16	(9,511)	(60,857)	10,568
		143,726	73,526	147,209
INVESTING ACTIVITIES				
Capital asset additions	18	(122,033)	(97,625)	(81,947)
Increase in other assets		(1,735)	(1,452)	(1,288)
Increased investment in subsidiaries	3	(801)	(800)	(800)
Proceeds from disposal of capital and other assets		1,523	425	3,065
Cash and cash equivalents acquired on additional investment in subsidiary	3	599	–	–
		(122,447)	(99,452)	(80,970)
FINANCING ACTIVITIES				
Issuance of Class A Subordinate Voting Shares, net of related costs	11	97,967	1,792	5,586
Dividends on Class A Subordinate Voting Shares and Class B Shares		(18,696)	(18,552)	(15,712)
(Decrease) increase in bank indebtedness		(18,357)	(3,407)	19,353
Repayments of long-term debt	9	(5,083)	(9,750)	(7,617)
Issues of long-term debt	9	124	8,753	1,377
Surrender of stock options	11	–	(417)	(3,223)
		55,955	(21,581)	(236)
Effect of exchange rate changes on cash and cash equivalents		3,822	106	(1,481)
Net increase (decrease) in cash and cash equivalents during the year		81,056	(47,401)	64,522
Cash and cash equivalents, beginning of year		95,703	143,104	78,582
Cash and cash equivalents, end of year		$ 176,759	$ 95,703	$ 143,104

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company are set out under "Significant Accounting Policies" preceding these consolidated financial statements.

2. JOINTLY CONTROLLED ENTITIES

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of its jointly controlled entities as follows:

Results of Operations	**2002**	2001	2000
(Canadian dollars in thousands)			
Sales	**$ 433,149**	$ 383,281	$ 385,099
Cost of goods sold, other expenses and income taxes [i]	**385,855**	341,805	350,395
Net income, after tax allocation	**$ 47,294**	$ 41,476	$ 34,704

Financial Position	**2002**	2001
(Canadian dollars in thousands)		
ASSETS		
Current assets	**$ 143,831**	$ 133,475
Long-term assets	**51,076**	29,571
Total assets	**$ 194,907**	$ 163,046
LIABILITIES AND EQUITY		
Current liabilities	**$ 60,770**	$ 50,370
Other liabilities	**150**	–
Loans from partners and shareholders	**47,089**	26,466
Equity [ii]	**86,898**	86,210
Total liabilities and equity	**$ 194,907**	$ 163,046

Statements of Cash Flows	**2002**	2001	2000
(Canadian dollars in thousands)			
Cash provided from (used for):			
Operating activities	**$ 67,529**	$ 43,290	$ 51,676
Investing activities [iii]	**(21,473)**	(7,920)	(8,671)
Financing activities [iv]	**(48,619)**	(19,694)	(38,504)
	$ (2,563)	$ 15,676	$ 4,501

[i] The results of operations for the year ended July 31, 2001 include the benefit of income tax refunds totaling $6.1 million, as outlined in Note 8a[i].

[ii] Included in equity are undistributed earnings of $79.0 million [2001 – $83.6 million].

[iii] Included in cash flows from investing activities in the Company's consolidated statements of cash flows as part of the additional investments in subsidiaries is $4.7 million of acquired capital and other assets purchased in the step-up acquisition of one of the jointly controlled entities, as fully described in Note 3.

[iv] Included in cash flows from financing activities is a net cash distribution to the Company of $51.5 million [2001 – $19.7 million; 2000 – $38.5 million].

Pursuant to agreements amongst the partners of one of the jointly controlled entities, net income is to be distributed annually to the partners and each partner is required to loan back to the entity approximately 35% of such distribution, unless otherwise determined by the management committee of the entity. No amounts were required to be loaned back during the years ended July 31, 2002, 2001 or 2000. The management committee is responsible for overseeing and directing the operations and management of the entity and is comprised of four members of which the Company is entitled to appoint two. The repayment of this entity's partners' capital of $7.4 million [2001 – $7.4 million] and loans are subject to the approval of the management committee.

In another jointly controlled entity, shareholders' loans total $30.1 million at July 31, 2002 [2001 – $10.2 million]. These loans were interest bearing at the rate of 10% per annum and were repayable on August 1, 2002. Effective August 1, 2002, the terms of these shareholders' loans were amended to adjust the rate of interest to prime plus 2%, payable monthly, with principal repayment due on August 1, 2004.

3. BUSINESS ACQUISITIONS

Fiscal 2002 Acquisition

Effective December 31, 2001, the Company completed the acquisition of an additional 30% interest in one of its jointly controlled entities for nominal cash consideration, increasing the Company's ownership to 75%. The transaction was accounted for using the purchase method. The net effect on the Company's balance sheet was a net decrease in working capital of $4.9 million (including cash acquired of $0.6 million), an increase in capital assets of $4.7 million, additional long-term debt acquired of $0.4 million, and an increase in goodwill of $0.6 million. Pursuant to agreements executed on the purchase, the only other remaining shareholder of the jointly controlled entity has the option to purchase an additional 25% equity ownership interest from the Company at any time prior to August 1, 2004 at a formula price. While the option is outstanding, the Company and the remaining shareholder each retain the right to nominate one of the two directors composing the board of directors of this jointly controlled entity.

Acquisitions in Prior Years

Under the terms of the acquisition of Triam Automotive Corporation (Sterling Heights) in October 1998, the Company agreed to pay an additional amount not to exceed $4 million in respect of the 5 year period commencing February 1, 1998 if Sterling Heights achieves certain predetermined levels of earnings. To date, payments totaling $3.2 million [2001 – $2.4 million] have been made as earnings have exceeded the predetermined levels in each of the first four years.

Similarly, under the terms of the acquisition of Hanwha Automotive Components Corporation (HACC) in January 1999, the Company agreed to pay additional amounts not to exceed US$2 million in respect of the 4 year period commencing January 1, 1999 equal to 50% of the amount that HACC's adjusted earnings exceed predetermined thresholds. To date, no amounts have been paid or accrued.

4. INVENTORIES

Inventories consist of:

(Canadian dollars in thousands)	2002	2001
Raw materials and supplies	**$ 38,295**	$ 34,905
Work-in-process	**16,887**	16,407
Finished goods	**24,943**	24,430
Tooling and engineering [i]	**25,704**	17,993
	$ 105,829	$ 93,735

[i] Tooling and engineering inventory represents costs incurred on separately priced tooling and engineering service contracts in excess of billed and unbilled amounts included in accounts receivable.

5. CAPITAL ASSETS

Capital assets consist of:

(Canadian dollars in thousands)	2002	2001
Land	$ 30,450	$ 26,657
Buildings	104,415	70,744
Machinery and equipment [i]	510,346	419,508
Capital expenditures in progress [iii]	60,228	46,516
	705,439	563,425
Accumulated depreciation [i], [ii]	275,813	214,417
	$ 429,626	$ 349,008

[i] Machinery and equipment includes $19.6 million [2001 – $17.6 million] for assets under capital leases and accumulated depreciation includes $8.1 million [2001 – $5.3 million] for assets under capital leases.

[ii] Accumulated depreciation includes $18.3 million [2001 – $13.5 million] for buildings and $257.5 million [2001 – $200.9 million] for machinery and equipment.

[iii] Capital expenditures in progress include costs incurred to date, including deposits, for machinery and equipment, assembly lines, and facility upgrades and expansions which are still in progress or are not yet in service as at the balance sheet date. Accordingly, depreciation on these assets will commence when the assets are put into use.

6. GOODWILL

At July 31, 2002, the Company had consolidated goodwill, recorded at carrying value, totaling $20.8 million [2001 - $19.2 million]. As fully described in the Company's Significant Accounting Policies preceding these consolidated financial statements, the new CICA non-amortization and impairment rules for existing goodwill were adopted prospectively and accordingly, the Company ceased recording amortization of goodwill effective August 1, 2001. In 2001, $1.7 million [2000 – $1.6 million] of goodwill amortization was recorded. The ending carrying value of goodwill at July 31, 2001 includes accumulated amortization of $6.8 million.

During the year, the Company recorded an additional $1.4 million of goodwill on current year acquisitions and earnout provisions associated with prior year acquisitions as described in Note 3.

During 2002, the Company assessed the fair value of the reportable segments to which the underlying goodwill is attributable and determined that no charge for impairment of goodwill is required for the year ended July 31, 2002.

7. OTHER ASSETS

Other assets consist of:

(Canadian dollars in thousands)	2002	2001
Deferred preproduction costs (net of accumulated amortization of $4,680 [2001 – $3,343])	$ 2,006	$ 3,343
Long-term receivables	2,228	774
Other	4,369	3,082
	$ 8,603	$ 7,199

8. INCOME TAXES

[a] Rate Reconciliation

Effective August 1, 2000, the Company adopted the new recommendations of the CICA for the accounting and disclosure of income taxes. The Company adopted these recommendations prospectively without restating the financial statements of any prior periods. Accordingly, the fiscal 2000 comparative amounts presented were determined using the deferral method of accounting for income taxes.

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates as a result of the following:

	2002	2001	2000
Canadian statutory income tax rate	40.0%	42.9%	44.5%
Manufacturing and processing profits deduction	(6.2)	(8.2)	(8.8)
Expected income tax rate	33.8	34.7	35.7
Tax refunds on profit distributions [i]	–	(7.7)	–
Foreign rate differentials	(0.5)	0.7	0.4
Losses not tax benefited in excess of (less than) losses utilized	1.3	(0.1)	0.4
Other	–	0.9	–
Effective income tax rate	34.6%	28.5%	36.5%

[i] In 2001, the Company recognized the full benefit of tax refunds totaling $9.4 million on dividends paid, and to be paid, out of two German subsidiaries. The refunds represented the recovery of taxes paid at higher rates in prior years through the payment of dividends before the end of calendar year 2001.

[b] Provision

The details of the income tax provision are as follows:

	2002	2001	2000
(Canadian dollars in thousands)			
Current provision			
Canadian federal taxes	$ 17,329	$ 21,744	$ 20,940
Provincial taxes	10,750	11,926	12,528
Foreign taxes	7,872	12,666	10,521
	$ 35,951	$ 46,336	$ 43,989
Future provision (recovery)			
Canadian federal taxes	$ 4,645	$ (3,153)	$ 2,805
Provincial taxes	2,445	(735)	1,715
Foreign taxes	1,231	(7,023)	184
	$ 8,321	$ (10,911)	$ 4,704
	$ 44,272	$ 35,425	$ 48,693

[c] Future Provision (Recovery)

Future income taxes have been provided (recovered) on temporary differences which consist of the following:

	2002	2001	2000
(Canadian dollars in thousands)			
Tax deferred income	$ 5,383	$ (1,080)	$ 3,763
Tax refunds on profit distributions	3,502	(9,408)	–
Tax depreciation in excess of book depreciation	(151)	459	236
Reduction in enacted tax rates	(670)	–	–
Book amortization of deferred preproduction costs less than tax	(455)	(464)	(477)
Other	712	(418)	1,182
	$ 8,321	$ (10,911)	$ 4,704

[d] Future Tax Assets and Liabilities

Future tax assets and liabilities consist of the following:

(Canadian dollars in thousands)		2002		2001
Future tax assets				
Tax refunds on profit distributions	$	**7,141**	$	9,570
Current future tax liabilities				
Tax depreciation in excess of book depreciation	$	**1,169**	$	1,161
Tax deferred income [i]		**16,747**		–
Net preproduction costs book value in excess of tax value		**455**		465
Other		**997**		711
	$	**19,368**	$	2,337
Long-term future tax liabilities				
Tax depreciation in excess of book depreciation	$	**15,217**	$	14,724
Tax deferred income [i]		**–**		12,635
Net preproduction costs book value in excess of tax value		**227**		696
Other		**3,700**		3,808
	$	**19,144**	$	31,863
Net future income tax liabilities	$	**31,371**	$	24,630

[i] Due to the Company's announced plans to change its fiscal year end to December effective December 31, 2002, a new effective tax year end for the Company will be triggered for the five-month period ending on that date (the stub period). As a result, certain temporary differences will reverse during this period and the Company will be required to include the amounts in its taxable income for the stub period. Accordingly, the Company has recorded the future tax liabilities associated with these differences as current.

[e] Taxes Paid

Income taxes paid in cash were $38.8 million for 2002 [2001 – $46.5 million; 2000 – $31.9 million].

[f] Loss Carryforwards

At July 31, 2002, certain subsidiaries of the Company have tax loss carryforwards, in various jurisdictions, of approximately $31.6 million. Of these losses, $25.8 million have no expiry date and $5.8 million expire between 2004 and 2009. The tax benefits of the full $31.6 million of these losses have not been recognized in the consolidated financial statements.

9. DEBT

[a] Long-Term Debt

The Company's long-term debt consists of the following:

(Canadian dollars in thousands)		2002		2001
6.22% Senior Unsecured Notes (Note 9[b])	$	**60,000**	$	60,000
Bank term debt (Note 9[c])		**14,878**		15,123
Obligations under capital leases (Note 9[d])		**3,585**		5,647
Other		**1,129**		793
		79,592		81,563
Less amounts due within one year		**4,420**		4,342
	$	**75,172**	$	77,221

[b] 6.22% Senior Unsecured Notes

The $60-million 6.22% Senior Unsecured Notes (the Notes) are due May 25, 2006. These Notes require the Company to maintain certain covenants.

[c] Bank Term Debt

Bank term debt consists of amounts originally denominated in the following currencies or legacy currencies:

	Final maturity	Weighted average interest rate	2002	2001
(Canadian dollars in thousands)				
Austrian schillings [i]	2003–2009	1.95%	$ **11,191**	$ 11,391
German deutschmarks [ii]	2003–2008	6.71%	**2,200**	2,359
Other	2008	3.80%	**1,487**	1,373
			$ **14,878**	$ 15,123

[i] Austrian Schillings

Long-term debt of $1.1 million (AS10 million) [2001 – $2.0 million (AS20 million)] is advanced under a total line of $1.1 million. Interest is currently payable at Euribor (Euro Interbank Offered Rate) plus 0.75%. The loan is repayable in equal semi-annual installments and matures July 1, 2003.

Long-term debt of $0.4 million (AS3.1 million) [2001 – $1.1 million (AS11.7 million)] is advanced under a total line of $0.4 million [2001 – $1.1 million]. Interest is payable at a fixed rate of 4.38%. The loan is repayable in equal semi-annual installments and matures December 31, 2003.

Under a banking arrangement which was conditional on the attainment of certain employment and capital expenditure requirements, only long-term debt of $9.7 million (AS85 million) [2001 – $8.3 million (AS85 million)] has been advanced under potential lines totaling $22.8 million (AS200 million) as conditions required for further funds under this arrangement have not been satisfied. Interest is currently payable at a fixed rate of 1.5%. The loan is repayable in equal semi-annual installments beginning July 1, 2003 and matures January 1, 2009. Effective July 1, 2003 through to maturity, interest is payable at a fixed rate of 2.95%. A portion of the loan is collateralized by land and buildings of certain subsidiaries.

[ii] German Deutschmarks

Bank term debt of $2.2 million (DM2.7 million) [2001 – $2.4 million (DM3.4 million)] is advanced under total lines of $2.2 million [2001 – $2.4 million]. Interest is currently payable at fixed rates ranging from 3.83% to 7.32%. The principal amounts are repayable at various intervals over the next six years. This debt is collateralized by land, building and specific assets of certain subsidiaries.

[d] Obligations Under Capital Leases

Obligations under capital leases consist of amounts originally denominated in the following currencies or legacy currencies:

	Final maturity	Weighted average interest rate	2002	2001
(Canadian dollars in thousands)				
U.S. dollars [i]	2003–2005	7.27%	$ **2,516**	$ 4,306
German deutschmarks	2006	5.75%	**1,029**	1,116
Korean won [ii]	2003–2004	12.87%	**40**	225
			$ **3,585**	$ 5,647

[i] Interest is payable at floating rates currently ranging from 3.14% to 8.50%.
[ii] Interest is payable at fixed rates of 12.80% and 13.00%, respectively.

[e] Principal Repayments

Future annual principal repayments on long-term debt are estimated to be as follows for the years ending July 31:

(Canadian dollars in thousands)	
2003	$ 4,420
2004	3,359
2005	3,710
2006	62,184
2007	2,188
Thereafter	3,731
	$ 79,592

[f] Bank Indebtedness

[i] The Company has an unsecured $50-million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. At July 31, 2002, the Company had outstanding letters of credit in the amount of $0.7 million drawn under this line of credit and $49.3 million of this line was unused and available. The Company also has foreign exchange facilities in the amount of $30 million (Note 13[a]).

[ii] Litens Automotive Partnership (LAP) has an unsecured $15-million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest all of which was unused and available at July 31, 2002. The related credit agreement provides for the maintenance of certain financial ratios. LAP also has a foreign exchange facility in the amount of US$50 million (Note 13[a]). One of LAP's subsidiaries has unsecured demand lines of credit totaling $5.7 million (DM4.0 million and euro 1.6 million) all of which were unused and available at July 31, 2002. Interest is payable at the Euribor plus 1.5% and a negotiated interest rate based on the European Central Bank's (the ECB) leading interest rate.

[iii] The Company has various operating lines of credit for its European subsidiaries denominated in euros, German deutschmarks and Austrian schillings totaling $29.4 million. As at July 31, 2002, $26.0 million was drawn on these lines while $3.4 million remains unused and available. Interest on the Euro denominated operating line of credit is currently payable at a negotiated interest rate based on the Austrian Control Bank Corporation's interest rate. Interest on German deutschmark denominated operating lines of credit is payable at interest rates negotiated based on the Euribor and the leading interest rates of the ECB. Interest on the lines of credit denominated in Austrian schillings is payable at a fixed rate of 6.4%, floating rates based on the Euribor plus a margin ranging from 0.25% to 0.75% and negotiated interest rates based on the Austrian National Bank interest rate for operating lines of credit. Accounts receivable and certain assets of the related subsidiaries have been pledged as collateral under these lines of credit.

[iv] HACC has various operating lines of credit denominated primarily in Korean won of $42.2 million (31.4 billion won). As at July 31, 2002, $38.2 million of these lines were unused and available. Interest is payable at variable rates based on prime, prime plus 1.0% to 1.7% and the daily best lending rates, which are adjusted at periodic intervals, currently ranging from 5.85% to 10.0%. Certain assets of this subsidiary have been pledged as collateral under certain of these lines of credit.

[g] Interest, net

Net interest expense (income) includes:

(Canadian dollars in thousands)	**2002**	2001	2000
Interest on long-term debt	**$ 4,641**	$ 4,807	$ 6,036
Other interest income, net – external	**(656)**	(3,223)	(2,765)
Interest expense –			
Magna International Inc. (Magna)	**28**	113	–
Interest, net	**$ 4,013**	$ 1,697	$ 3,271

Net interest paid in cash was $4.0 million for 2002 [2001 – $1.9 million; 2000 – $3.0 million].

10. POST-RETIREMENT MEDICAL BENEFITS

The Company provides a post-retirement medical benefits plan covering eligible employees and retirees. Retirees sixty-years of age and older with ten or more years of service are eligible for benefits. In addition, existing retirees as at the date of plan implementation that meet the above criteria are also eligible for benefits. Benefits are capped based on years of service.

The cost of benefits earned by employees is actuarially determined using the projected benefit method prorated based on service and management's best estimate of compensation increases, retirement ages of employees, future termination levels and expected returns on plan assets.

The significant actuarial assumptions adopted in measuring the Company's projected benefit obligations are as follows:

Discount rate	6.8%
Rate of compensation increase	4.0%

[a] Projected Benefit Obligation

The projected benefit obligation and the net amount included in accrued salaries and wages in the consolidated balance sheets is calculated as follows:

(Canadian dollars in thousands)	2002	2001
Balance, beginning of year	$ 1,973	$ –
Past service obligation arising on plan introduction	–	1,642
Current service costs	220	203
Interest costs on projected benefit obligation	141	128
Actuarial gains and changes in actuarial assumptions	283	–
Benefits paid	(10)	–
Unfunded obligation	2,607	1,973
Unrecognized past service costs	(1,902)	(2,115)
Unrecognized actuarial gains	192	587
Net amount recognized in the consolidated balance sheets	$ 897	$ 445

[b] Net Periodic Cost

The calculation of the net periodic cost is as follows:

(Canadian dollars in thousands)	2002	2001
Current service costs	$ 220	$ 203
Interest costs on projected benefit obligation	141	128
Amortization of past service costs	117	118
Amortization of experience gains	(16)	(4)
	$ 462	$ 445

11. CAPITAL STOCK

[a] Class A Subordinate Voting Shares and Class B Shares

Class A Subordinate Voting Shares without par value (unlimited amount authorized) have the following attributes:

- Each share is entitled to one vote per share at all meetings of shareholders.
- Each share shall participate equally as to cash dividends with each Class B Share.

Class B Shares without par value (unlimited amount authorized) have the following attributes:

- Each share is entitled to 10 votes per share at all meetings of shareholders.
- Each share shall participate equally as to cash dividends with each Class A Subordinate Voting Share.
- Each share may be converted at any time into fully-paid Class A Subordinate Voting Shares on a one-for-one basis.

In the event that either the Class A Subordinate Voting Shares or the Class B Shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

Outstanding Class A Subordinate Voting Shares and Class B Shares included in shareholders' equity of the Company consists of:

	Class A Subordinate Voting Shares		Class B Shares	
	Number of shares	Consideration	Number of shares	Consideration
(Canadian dollars in thousands, except number of shares)				
Balance, July 31, 1999	14,367,779	$ 180,265	14,223,900	$ 2,583
Issuance of Class A Subordinate Voting Shares to Magna [i]	4,352,644	–		
Cancellation of Class A Subordinate Voting Shares [i]	(4,352,644)	–		
Exercise of Incentive Stock Options (Note 11[b])	532,000	5,586		
Balance, July 31, 2000	14,899,779	185,851	14,223,900	2,583
Exercise of Incentive Stock Options (Note 11[b])	142,600	1,792		
Balance, July 31, 2001	15,042,379	187,643	14,223,900	2,583
Issuance of Class A Subordinate Voting Shares through Public Offering [ii]	2,850,000	97,190		
Exercise of Incentive Stock Options (Note 11[b])	182,400	2,194		
Balance, July 31, 2002	**18,074,779**	**$ 287,027**	**14,223,900**	**$ 2,583**

[i] On June 19, 2000, the Company completed a series of transactions to assist Magna in a reorganization of its holdings of the Company's Class A Subordinate Voting Shares prior to the sale of these shares by way of a public secondary offering. The Company, through a series of transactions, issued 4,352,644 new Class A Subordinate Voting Shares to Magna in exchange for all outstanding common shares of Magna's wholly-owned subsidiary, 1422662 Ontario Inc. (1422662), whose only asset was 4,352,644 previously issued Class A Subordinate Voting Shares of the Company. Immediately following this acquisition, 1422662 was wound up into the Company and the 4,352,644 previously issued Class A Subordinate Voting Shares of the Company were cancelled. Magna has indemnified the Company, its officers, directors and other shareholders against any liabilities which may arise in connection with this reorganization.

[ii] On July 18, 2002, the Company completed a public offering of Class A Subordinate Voting Shares. The details of the proceeds from the offering are as follows:

(Canadian dollars in thousands)	
Total proceeds on issue of 2,850,000 shares at $35.15	$ 100,178
Underwriter's fee	(4,007)
Other expenses of the issue	(398)
Tax savings in respect of the above fee and expenses	1,417
Net proceeds	$ 97,190

[b] Incentive Stock Option Plan

Under the Company's amended and restated Incentive Stock Option Plan, the Company may grant options to purchase Class A Subordinate Voting Shares to present and future officers, directors, other full-time employees or consultants of the Company. The maximum number of shares reserved to be issued for options is 3,000,000 subject to certain adjustments. The number of unoptioned shares available to be reserved at July 31, 2002 was 44,500 [2001 – 44,500]. If, at the Company's option, stock options are repurchased from employees or directors, the excess of consideration paid over the exercise price of the stock options cancelled is charged to retained earnings.

All options granted are for a term not exceeding 10 years from the date of grant. In general, management options vest 20% on the date of the grant and 20% on August 1 of each of the four calendar years following the grant date. However, 70,000 options granted to directors in 2000 vested 50% on the grant date with the remaining 50% vesting on August 1, 2001, and 300,000 options granted to Stronach & Co. (S & Co) vested 16 2/3% on October 25, 2000 and 16 2/3% on each of the following five anniversaries of this date. All options allow the holder to purchase Class A Subordinate Voting Shares at a price equal to or greater than the market price of such shares at the date of the grant.

The following is a continuity schedule of the options outstanding:

	Number of options	Range of exercise price	Weighted average exercise price	Options exercisable
Balance, July 31, 1999	1,533,000	$10.50–$22.50	$11.72	1,113,500
Granted	545,500	$19.00–$26.00	$25.13	
Exercised	(532,000)	$10.50	$10.50	(532,000)
Surrendered (i)	(325,000)	$10.50	$10.50	(325,000)
Vested (ii)				436,600
Balance, July 31, 2000	1,221,500	$10.50–$26.00	$18.56	693,100
Granted (iii)	432,500	$26.45–$29.40	$27.35	
Exercised	(142,600)	$10.50–$26.00	$12.57	(142,600)
Surrendered (iv)	(73,000)	$10.50–$26.00	$16.41	(73,000)
Cancelled	(5,000)	$26.00	$26.00	(5,000)
Vested				151,500
Balance, July 31, 2001	1,433,400	$10.50–$29.40	$21.89	624,000
Exercised	(182,400)	$10.50–$26.00	$12.03	(182,400)
Vested				240,600
Balance, July 31, 2002	**1,251,000**	**$10.50–$29.40**	**$23.33**	**682,200**

[i] On June 15, 2000, due to the timing of a public offering of the Company's Class A Subordinate Voting Shares, the Human Resources and Compensation Committee (HRC Committee) of the Company asked the then CEO of the Company to consider a proposal to surrender 325,000 vested stock options for the purchase of Class A Subordinate Voting Shares in exchange for a cash payment equal to their intrinsic value. This proposal was presented to the then CEO as an alternative to his stated plans to exercise 325,000 stock options and sell the acquired Class A Subordinate Voting Shares through the public markets. To effect this surrender, the HRC Committee granted 325,000 Stock Appreciation Rights (SARs) in connection with 325,000 previously issued stock options. The then CEO immediately exercised these SARs and surrendered the underlying stock options for proceeds of $5.0 million, resulting in a $3.2 million net charge to retained earnings. A portion of the proceeds on surrender was used to repay indebtedness to the Company of $1.3 million, including accrued interest, and to pay withholding taxes arising on the surrender of the stock options.

[ii] On June 1, 2000, the vesting date for 125,000 options previously granted to S & Co was accelerated to June 5, 2000 from October 24, 2000, thus allowing S & Co to participate in the June 19, 2000 public offering of Class A Subordinate Voting Shares of the Company by several selling shareholders and thereby providing a more orderly and efficient distribution of S & Co's shares in the public market.

[iii] On August 31, 2000, a grant of 300,000 options to purchase Class A Subordinate Voting Shares was made to S & Co at an exercise price of $26.45 pursuant to a Consulting Services Agreement as described in Note 18.

[iv] On January 29, 2001, in connection with the resignation from the Company of a Vice President, the HRC Committee of the Company asked the Vice President to consider a proposal to surrender 73,000 vested stock options for the purchase of Class A Subordinate Voting Shares in exchange for a cash payment equal to their intrinsic value. This proposal was presented to the Vice President as an alternative to his stated plans to exercise 73,000 stock options and sell the acquired Class A Subordinate Voting Shares through the public markets. To effect this surrender, the HRC Committee granted 73,000 SARs in connection with the 73,000 previously issued stock options. The Vice President immediately exercised these SARs and surrendered the underlying stock options for proceeds of $0.6 million, resulting in a $0.4 million net charge to retained earnings. A portion of the proceeds on surrender was used to pay withholding taxes arising on the surrender of the stock options.

The following table summarizes the significant ranges of outstanding and exercisable options held by directors, officers and employees as of July 31, 2002:

	Options outstanding			
	Exercise price	Number of options	Remaining contractual life	Number of options exercisable
	$10.50	114,000	3.0	114,000
	$10.50	60,000	4.0	60,000
	$17.25	65,500	6.0	48,000
	$19.00	57,000	7.0	30,000
	$21.70	10,000	5.0	10,000
	$22.50	60,000	5.0	60,000
	$26.00	452,000	8.0	207,200
	$26.45	300,000	8.0	100,000
	$29.40	132,500	8.0	53,000
		1,251,000		682,200
Weighted average exercise price		$ 23.33		$ 21.08
Weighted average remaining contractual life		7.0		6.3

[c] Non-Employee Director Share-Based Compensation Plan

Under this plan, established during fiscal 2000, non-employee directors can elect to receive a portion of their annual retainers and other Board-related compensation in the form of deferred share units (DSUs) which are credited to the director's account, and the Company records a liability. The number of DSUs issued is based upon the market value of the Company's shares at each allocation date. One DSU has a cash value equal to the market price of one of the Company's Class A Subordinate Voting Shares. Within a specified time after retirement, non-employee directors receive a cash payment equal to the market value of their DSUs. During 2002, $0.3 million [2001 – $0.2 million] was recorded as compensation expense (including revaluation of the DSUs to their fair values at July 31, 2002) under this plan. At July 31, 2002, there were 23,185 DSUs [2001 – 15,307] having a total value of $0.7 million [2001 – $0.4 million] that were issued and outstanding.

[d] Maximum Number of Shares

The following table presents the maximum number of shares that would be outstanding if all the outstanding options at July 31, 2002 were exercised:

	Number of shares
Class A Subordinate Voting Shares outstanding at July 31, 2002	18,074,779
Class B Shares outstanding at July 31, 2002	14,223,900
Options to purchase Class A Subordinate Voting Shares	1,251,000
	33,549,679

12. EARNINGS PER CLASS A SUBORDINATE VOTING SHARE OR CLASS B SHARE

The following table presents the reconciliation from the weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding to the weighted average number of these shares outstanding on a diluted basis:

	2002	2001	2000
(in thousands)			
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year	**29,454**	29,214	28,766
Effect of dilutive securities:			
Stock options to purchase Class A Subordinate Voting Shares	**375**	344	556
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year on a diluted basis	**29,829**	29,558	29,322

All options to purchase Class A Subordinate Voting Shares outstanding at July 31, 2002 and July 31, 2001 have been considered in the computation of diluted earnings per Class A Subordinate Voting Share or Class B Share because their impact was dilutive. At July 31, 2000, there were options to purchase 478,000 Class A Subordinate Voting Shares at an exercise price of $26.00 per share that were outstanding and not included in the computation of diluted earnings per Class A Subordinate Voting Share or Class B Share because their impact was anti-dilutive.

13. FINANCIAL INSTRUMENTS

[a] Foreign Exchange Contracts and Other Hedging Instruments

[i] Foreign Currency Hedges

The Company operates globally, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange. The Company, including LAP, utilizes foreign exchange forward contracts to manage foreign exchange risk from its underlying customer contracts. In particular, the Company uses foreign exchange forward contracts for the sole purpose of hedging a significant portion of its projected foreign currency inflows and outflows, consisting primarily of US dollar and euro denominated contractual commitments to deliver products to the Company's customers or buy products from the Company's suppliers in addition to other anticipated transactions expected to be settled in foreign currencies. The Company does not enter into foreign exchange contracts for speculative purposes.

As at July 31, 2002, the Company had outstanding foreign exchange forward contracts representing a commitment to sell approximately US$102.1 million and 19.8 million euros, at weighted average rates of exchange of CDN$1.55 and CDN$1.52, respectively, and to buy approximately US$90.3 million and 24.6 million euros at weighted average rates of exchange of CDN$1.47 and CDN$1.41, respectively. These contracts mature over the next five years as follows:

	For Canadian dollars			
(Amounts in millions, except rates)	US dollar amount	Weighted average rate	Euro amount	Weighted average rate
2003	US$ (46.3)	1.53	€ (14.2)	1.51
2003	37.3	1.47	6.5	1.48
2004	(21.6)	1.52	(5.6)	1.54
2004	28.6	1.46	6.9	1.37
2005	(15.0)	1.57	–	–
2005	17.6	1.45	6.9	1.39
2006	(9.6)	1.59	–	–
2006	4.7	1.57	3.9	1.41
2007	(9.6)	1.59	–	–
2007	2.1	1.57	0.4	1.45
	US$ (11.8)		€ 4.8	

The fair values of foreign exchange forward contracts represent an approximation of the amounts the Company would have paid to or received from counterparties to unwind its positions at July 31, 2002. The fair value of the Company's net benefit for all foreign exchange forward contracts at July 31, 2002 was approximately $9.2 million [2001 – $7.5 million]. If these contracts ceased to be effective as hedges (i.e., if the related projected cash flows changed significantly), previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign denominated cash flows would be recognized in income at the time this condition was identified.

[ii] Other Financial Instruments

The Company, through one of its jointly controlled entities, has outstanding foreign exchange options that require it to sell 4.6 million euros at a weighted average rate of US$0.92. The fair value of these options at July 31, 2002 is approximately $0.5 million lower than the carrying value and due to the fact these options do not qualify as part of an effective hedging relationship, the amount was recorded as a charge against earnings.

To manage the electricity cost volatility that may arise since the Ontario, Canada hydro electricity market was deregulated in May 2002, the Company entered into a contract to purchase approximately 131,000 mega-watt hours (MWH) of electricity over a three year period at a weighted average rate of $53.80 per MWH. The mark-to-market fair value of this contract at July 31, 2002 was not significant.

[b] Fair Value

The Company has determined the estimated values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the

amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instruments are discussed below.

Short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable, accrued liabilities and income taxes payable, are valued at their carrying amounts as presented in the consolidated balance sheets. The carrying values of the amounts are reasonable estimates of fair value due to the short period to maturity of these financial instruments except for the obligation for the post-retirement medical benefits plan for which the actuarially determined obligation exceeds the carrying value by $1.7 million as described in Note 10[a].

Fair value information is not readily available for the Company's long-term monetary assets included in other assets. However, management believes the market value of these assets approximates their carrying value.

Rates currently available to the Company for long-term debt with similar terms and remaining maturities have been used to estimate the fair value of the long-term debt which approximates the carrying value for all years, including the $60 million 6.22% Senior Unsecured Notes at July 31, 2002 [2001 – $58.2 million].

The Company enters into foreign exchange forward contracts to manage foreign currency risk. If the Company did not use forward contracts, its exposure to financial risks would be higher. The Company does not enter into forward contracts for speculative purposes. The fair values of foreign exchange forward contracts represent an approximation of the amounts that the Company would have paid to or received from counterparties to unwind its positions prior to maturity. The fair value of the Company's net benefit for all foreign exchange forward contracts, none of which is recorded, is discussed in Note 13[a].

[c] Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and foreign exchange forward contracts with positive fair values.

The Company, in the normal course of business, is exposed to credit risk from its customers, all of which are substantially in the automotive industry. These accounts receivable are subject to normal industry credit risks.

Cash and cash equivalents, which consists of short-term investments, including commercial paper and certified deposits, are only invested in governments and corporations with a minimum credit rating of R1 (low) by the Dominion Bond Rating Service (DBRS) or its equivalent, and in the United States, banks with a Financial Strength Rating of A by Moody's Investors Service or its equivalent. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by generally dealing only with counterparties which are banks with a minimum credit rating of A-2 by Standard & Poor's and which are included on an authorized list of counterparties maintained by the Company. The Company also monitors its relative positions with each counterparty. The maximum credit risk, based on the theoretical amount, term and exchange rates, amounts to approximately $15.4 million. This risk is divided amongst six financial institutions. The Company does not anticipate non-performance of contractual obligations by any of the counterparties.

[d] Interest Rate Risk

The following table summarizes the Company's exposure to interest rate risk as at July 31, 2002:

		Fixed interest rate maturing in				
	Floating rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
(Canadian dollars in thousands)						
Financial assets						
Cash	$ 176,759					$ 176,759
Accounts receivable					$ 198,383	198,383
Other assets	493	$ 60	$ 135		3,089	3,777
Financial liabilities						
Bank indebtedness	(30,053)					(30,053)
Accounts payable and all other accrued liabilities and payables					(194,938)	(194,938)
Long-term debt	(3,657)	(2,038)	(72,439)	$ (808)	(650)	(79,592)
	$ 143,542	$ (1,978)	$ (72,304)	$ (808)	$ 5,884	$ 74,336
Average fixed rate of long-term debt		3.97%	5.63%	1.50%		

14. CURRENCY TRANSLATION ADJUSTMENT

The following is a continuity schedule of the currency translation adjustment account included as a separate component of shareholders' equity:

(Canadian dollars in thousands)	2002	2001
Balance, beginning of year	$ (8,436)	$ (7,783)
Realized translation (gain) loss on the reduction of the net investment in foreign operations	(185)	3,372
Unrealized translation adjustments	20,638	(4,025)
Balance, end of year	$ 12,017	$ (8,436)

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of $20.6 million [2001 – loss of $4.0 million] primarily from the strengthening of the euro and Korean won against the Canadian dollar, during the year.

The translation gain of $0.2 million [2001 – $3.4 million loss] realized on the reduction of the net investment in foreign operations was the result of dividend distributions and was recorded in selling, general and administrative expenses.

15. RESEARCH AND DEVELOPMENT

Gross R&D expenditures for the year ended July 31, 2002 were $24.4 million [2001 – $18.9 million; 2000 – $19.9 million]. These expenditures were partially funded by governments or customers in the amount of $6.2 million [2001 – $6.5 million; 2000 – $5.6 million].

16. DETAILS OF CASH FROM OPERATING ACTIVITIES

[a] Items Not Involving Current Cash Flows

Items not involving current cash flows consist of:

(Canadian dollars in thousands)	2002	2001	2000
Depreciation and amortization	$ 58,663	$ 51,646	$ 43,513
Future income taxes	8,321	(10,911)	4,704
Realized translation (gains) losses on the reduction of net investment in foreign operations	(185)	3,372	–
Net periodic cost of post-retirement medical benefits plan	462	445	–
Other	2,136	1,036	3,530
	$ 69,397	$ 45,588	$ 51,747

[b] Net Change In Non-Cash Working Capital

The net change in non-cash working capital, net of foreign exchange fluctuations, consists of:

(Canadian dollars in thousands)	2002	2001	2000
Accounts receivable	$ (24,017)	$ (35,906)	$ (14,208)
Inventories	(9,403)	(12,357)	(12,239)
Prepaid expenses and other	(1,068)	(448)	(486)
Accounts payable and other accrued liabilities	22,465	(9,571)	18,356
Accrued salaries and wages	4,226	1,150	12,334
Income taxes payable	(1,714)	(3,725)	6,811
	$ (9,511)	$ (60,857)	$ 10,568

17. SEGMENTED INFORMATION

[a] Operating Segments

The Company currently operates in one industry segment, the automotive powertrain business, designing and manufacturing parts and assemblies primarily for the automotive OEMs or their Tier I and Tier II powertrain component manufacturers.

The Company operates internationally and its manufacturing facilities are arranged geographically to match the requirements of the Company's customers in each market. Each manufacturing facility has the capability to offer many different powertrain parts and assemblies as the technological processes employed can be used to make many different parts and assemblies. Additionally, specific marketing and distribution strategies are required in each geographic region.

The Company currently operates in four geographic segments of which only two are reportable segments. The accounting policies for the segments are the same as those described in Note 1 to the consolidated financial statements and intersegment sales are accounted for at prices which approximate fair value.

Executive management assesses the performance of each segment based on income before income taxes as the management of income tax expense is centralized.

(Canadian dollars in thousands)	North American Automotive	European Automotive	Other Automotive	Total
July 31, 2002				
Total sales	**$ 1,058,852**	**$ 253,614**	**$ 46,421**	**$ 1,358,887**
Intersegment sales	**(14,844)**	**(2,427)**	**–**	**(17,271)**
Sales to external customers	**$ 1,044,008**	**$ 251,187**	**$ 46,421**	**$ 1,341,616**
Depreciation and amortization (Note 6)	**$ 44,263**	**$ 10,060**	**$ 4,340**	**$ 58,663**
Interest, net	**$ 1,475**	**$ 840**	**$ 1,698**	**$ 4,013**
Income before income taxes	**$ 116,126**	**$ 10,496**	**$ 1,490**	**$ 128,112**
Capital assets, net (Note 18)	**$ 301,037**	**$ 90,101**	**$ 38,488**	**$ 429,626**
Capital asset additions (Note 18)	**$ 93,460**	**$ 24,537**	**$ 4,036**	**$ 122,033**
Goodwill, at carrying value (Note 6)	**$ 19,828**	**$ 946**	**$ –**	**$ 20,774**
July 31, 2001				
Total sales	$ 948,336	$ 219,744	$ 45,564	$ 1,213,644
Intersegment sales	(8,725)	(2,775)	–	(11,500)
Sales to external customers	$ 939,611	$ 216,969	$ 45,564	$ 1,202,144
Depreciation and amortization (Note 6)	$ 39,024	$ 8,368	$ 4,254	$ 51,646
Interest, net	$ 454	$ (510)	$ 1,753	$ 1,697
Income before income taxes	$ 103,615	$ 17,174	$ 3,431	$ 124,220
Capital assets, net	$ 250,250	$ 63,921	$ 34,837	$ 349,008
Capital asset additions	$ 80,211	$ 15,764	$ 1,650	$ 97,625
Goodwill, net (Note 6)	$ 17,870	$ 1,361	$ –	$ 19,231
July 31, 2000				
Total sales	$ 883,295	$ 208,830	$ 42,748	$ 1,134,873
Intersegment sales	(4,241)	(2,847)	–	(7,088)
Sales to external customers	$ 879,054	$ 205,983	$ 42,748	$ 1,127,785
Depreciation and amortization (Note 6)	$ 31,265	$ 7,760	$ 4,488	$ 43,513
Interest, net	$ 1,042	$ (808)	$ 3,037	$ 3,271
Income before income taxes	$ 116,111	$ 14,949	$ 2,527	$ 133,587
Capital assets, net	$ 208,393	$ 55,977	$ 41,687	$ 306,057
Capital asset additions	$ 54,292	$ 21,018	$ 6,637	$ 81,947
Goodwill, net (Note 6)	$ 17,788	$ 1,704	$ –	$ 19,492

[b] Geographic and Customer Information

The final destination of the Company's sales to its external customers are as follows:

	2002	2001	2000
(Canadian dollars in thousands)			
Canada	**$ 121,895**	$ 109,775	$ 97,247
United States	**773,967**	696,959	660,471
Europe	**365,219**	321,445	301,838
Other foreign countries	**80,535**	73,965	68,229
	$1,341,616	$1,202,144	$1,127,785

In 2002, sales to the Company's four largest customers (including their global subsidiaries) amounted to 42%, 18%, 9% and 7% of total sales [2001 – 40%, 20%, 8% and 8%; 2000 – 38%, 20%, 9% and 8%].

18. RELATED PARTY TRANSACTIONS

The Company completed transactions with Magna, the Company's controlling shareholder, and other companies under Magna's control during the year as follows:

	2002	2001	2000
(Canadian dollars in thousands)			
Sales [i]	**$ 21,072**	$ 15,316	$ 18,901
Purchases of materials and services [i]	**$ 5,109**	$ 6,960	$ 5,191
Rental of manufacturing facilities	**$ 1,328**	$ 976	$ –
Affiliation fee [ii]	**$ 13,416**	$ 12,022	$ 11,278
Social fee [iii]	**$ 1,922**	$ 1,863	$ 1,455
Other specific charges [iv]	**$ 2,913**	$ 1,386	$ 610
Interest	**$ 28**	$ 113	$ –
Construction management fees [v(b)]	**$ 2,226**	$ –	$ –

The outstanding balances related to these transactions at the end of the year are included in the consolidated financial statements as follows:

	2002	2001
(Canadian dollars in thousands)		
Accounts receivable [i]	**$ 2,484**	$ 3,078
Accounts payable and other accrued liabilities [i]	**$ 6,560**	$ 1,369

[i] Sales to and purchases from Magna and the resulting accounts receivable and payable balances are typically effected on normal commercial terms.

[ii] The Company is party to an affiliation agreement with Magna that provides for the payment by the Company of an affiliation fee in exchange for, among other things, Magna granting the Company a non-exclusive world-wide licence to use certain Magna trademarks, and Magna providing certain management and administrative services (including, among other things, utilization of Magna's foreign exchange forward credit facilities, if needed and as available) to the Company. The existing affiliation agreement was set to expire on July 31, 2002; however, an extension of this agreement was negotiated with Magna and became effective August 1, 2002 for a term of seven years and five months expiring on December 31, 2009. Under the terms of the extended agreement, affiliation fees payable to Magna will continue to be calculated as 1% of the Company's consolidated net sales. However, the new agreement provides for a limited moratorium on the sales from acquired businesses, in that there will be no affiliation fee payable on net sales generated from acquired businesses in the fiscal year of the acquisition and only 50% of the normal affiliation fee will be payable on such net sales in the following fiscal year. The full affiliation fee will be payable on net sales from acquired businesses in all the subsequent years.

[iii] Under the terms of a social fee agreement, the Company pays Magna a social fee of 1.5% of pretax profits as a contribution to social and charitable programs coordinated by Magna on behalf of Magna and its affiliated companies, including the Company. The social fee agreement (expiring July 31, 2002) was renewed with Magna, on the same terms, for a period of seven years and five months, expiring December 31, 2009.

[iv] Other specific charges are negotiated annually and are based on the level of benefits or services provided by Magna Services Inc. (Serviceco), a wholly-owned subsidiary of Magna, to the Company. The services that are provided include, but are not limited to: information technology (WAN infrastructure and support services), human resources services, (including administration of the Employee Equity Participation and Profit Sharing Plan), foreign marketing services, finance, treasury and legal support, management and technology training and an allocated share of the facility and overhead costs dedicated to providing these services. During the year, the Company recorded a $0.6 million reimbursement of additional costs billed by Serviceco for other specific services described above that had been provided to the Company in respect of fiscal 2001.

[v] Other transactions

(a) Due to the previously announced abandonment of the proposed merger of the Company and the Magna Steyr Group, costs approximating $0.6 million (net of a $2.0 million recovery from Magna pursuant to the merger agreement between the Company and Magna) that had been incurred specifically for the merger transaction were expensed by the Company as part of selling, general and administrative costs.

(b) During the year, the Company embarked on or completed various real estate projects, including the construction of a new transmission components manufacturing facility, expansions at three other manufacturing facilities and the construction of a new corporate office, which were all sourced through a wholly-owned subsidiary of Magna. For the year, total costs approximating $22.3 million have been billed by this subsidiary for these projects, of which $20.1 million was billed on a cost recovery basis and $2.2 million was billed as construction management fees (including carrying charges).

(c) During the year, the Company purchased $0.9 million [2001 – $0.4 million] of products and services from, and sold $0.3 million [2001 – $0.2 million] of products and services to, a company owned by the Vice Chairman and CEO of the Company. These transactions were effected on normal commercial terms. At July 31, 2002, $0.2 million was recorded as a net receivable from [2001 – $0.1 million net payable to] this company.

(d) During the year, the Company purchased $0.1 million [2001 – $nil] of services from firms affiliated with certain members of the Company's Board of Directors.

(e) During the year, the Company loaned $0.6 million to the Vice Chairman and CEO of the Company with interest at the rate of 4% per annum. The loan and all associated interest was repaid prior to year end.

(f) Effective October 25, 2000, the Company signed a Consulting Services Agreement (CSA) with S & Co. Under the terms of the CSA, S & Co will provide the Company with various consulting services in continental Europe and in other non-North American countries for a period of six years ending October 25, 2006. In consideration for the consulting services to be provided under the CSA, the Board of Directors granted to S & Co, options to purchase 300,000 Class A Subordinate Voting Shares at an exercise price of $26.45 per share (Note 11[b][iii]). The general partner of S & Co is the Chairman of the Company's Board of Directors and the Chairman of Magna.

19. COMMITMENTS AND CONTINGENCIES

[a] Operating Leases

The Company had commitments under operating leases requiring future minimum annual rental payments for the years ending July 31 as follows:

(Canadian dollars in thousands)	
2003	$ 7,597
2004	5,780
2005	4,117
2006	3,183
2007	2,453
Thereafter	6,225
	$ 29,355

Approximately 18% [2001 – 24%] of these lease commitments represent the Company's share of commitments of its proportionately consolidated jointly controlled entities. Approximately 32% [2001 – 18%] of the lease commitments are with related parties.

For the year ended July 31, 2002, payments under operating leases amounted to approximately $8.0 million [2001 – $6.3 million; 2000 – $5.8 million].

[b] Purchase Commitments

The Company has commitments to purchase capital assets of approximately $32.9 million as at July 31, 2002 [2001 – $30.7 million]. In addition, as described in Note 13a[ii], in May 2002, the Company entered into a three year contract to purchase specified levels of hydro electricity supply in Ontario during expected peak and non-peak time periods at specified fixed prices. The total commitment remaining under this contract at July 31, 2002 is approximately $6.5 million.

[c] Corporate Constitution

The Company's Corporate Constitution requires that a portion of the Company's profits be distributed or used for certain purposes, including but not limited to the following:

- allocation or distribution of 10% of pre-tax profits to employees and/or the Tesma Employee Equity Participation and Profit Sharing Program (including the Tesma International Inc. (Canadian) Deferred Profit Sharing Plan and the Tesma International of America, Inc. U.S. Employees' Deferred Profit Sharing Plan forming part thereof);
- allocation of a minimum of 7% of pre-tax profits to R&D; and
- payment of dividends to shareholders based on a formula of after-tax profits.

[d] General

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

20. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP which conform in all material respects with U.S. GAAP except for the following:

[a] Income Taxes

Prior to August 1, 2000, the income tax provision under Canadian GAAP was based on the deferral method and adjustments were not made for changes in income tax rates. Under U.S. GAAP, the income tax provision was calculated using the liability method and adjustments were made for enacted changes in income tax rates.

[b] Derivative Instruments and Hedging

The Company uses foreign exchange forward contracts to manage foreign exchange risk from its underlying customer contracts. As detailed in Note 13, the Company uses foreign exchange forward contracts for the sole purpose of hedging certain of its future committed U.S. dollar and euro inflows and outflows. Under Canadian GAAP, gains and losses on these contracts are accounted for as a component of the related hedged transaction. For periods up to and including July 31, 2000, gains and losses on these contracts were also accounted for as a component of the related hedged transaction under U.S. GAAP.

Effective August 1, 2000, the Company adopted Statement of Financial Accounting Standards Board (FASB) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by FASB Statements No. 137 and 138 (collectively the Statement), which establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts and for hedging activities. The Statement requires a company to recognize all of its derivative instruments, whether designated in hedging relationships or not, on the balance sheet at fair value. The accounting for changes in fair value (i.e.,gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. The Statement establishes certain criteria to be met in order to designate a derivative instrument as a hedge and deem a hedge as effective.

The Company is currently working towards a new treasury management system that complies with the new documentation requirements for hedge accounting under the Statement. For the year ended July 31, 2002, the Company's derivative portfolio is not eligible for hedge accounting despite the fact that management considers its portfolio to be an effective foreign currency risk management tool and an economic hedge of the Company's projected cash flows in the significant foreign currencies in which it transacts.

Accordingly, the Company has recorded a gain of $2.4 million for the year ended July 31, 2002 in its reconciliation of net income under U.S. GAAP. In 2001, the Company recorded a cumulative gain of $2.5 million as a component of comprehensive income upon adoption of the Statement of which $1.3 million has now been realized through U.S. GAAP net income.

The Company has reviewed its other commercial contracts outstanding as at July 31, 2002 and 2001 in relation to the Statement and has concluded that there are no freestanding derivatives having a significant impact on the consolidated financial statements. In addition, the Company has determined that there are no other embedded derivative instruments outstanding.

[c] Deferred Preproduction Costs

Under U.S. GAAP, the Company would have expensed all preproduction costs as incurred.

[d] Joint Ventures

The Company has certain interests in jointly controlled entities, which have been proportionately consolidated in the Company's consolidated financial statements. Under U.S. GAAP, the Company would account for its interests in its jointly controlled entities using the equity method. Net income, earnings per share and shareholders' equity under U.S. GAAP are not impacted by the proportionate consolidation of these interests in jointly controlled entities.

[e] Gains and Losses on Translation of Long-Term Debt

Under U.S. GAAP, gains and losses arising on the translation of foreign currency denominated long-term debt, at exchange rates prevailing on the balance sheet date, are included in income. Under Canadian GAAP, these amounts are deferred and amortized over the remaining term of the debt (see Note 20[l]).

[f] Accounting for Stock Options

The Company continues to measure compensation cost related to awards of stock options using the intrinsic value-based method of accounting as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by Statement of Financial Accounting Standards Board No. 123 "Accounting for Stock-Based Compensation" (FAS 123). Under APB Opinion No. 25, when a stock option is repurchased by the Company for a cash payment, the Company must record compensation expense. Under Canadian GAAP, the payment is considered a capital transaction and recorded in retained earnings.

In addition, under FAS 123, when stock options are issued to non-employees other than directors acting in their capacities as directors, the Company must record compensation expense. Options issued to directors for services provided outside of their role as directors are recorded as compensation expense by the Company. Under Canadian GAAP, no compensation expense is recognized because the options have no intrinsic value at the time of issuance.

[g] Recognition of Translation Gains and Losses on Reduction of Net Investment in Foreign Subsidiaries

Under U.S. GAAP FASB Statement No. 52 (FAS 52), the Company would only realize a gain or loss on the portion of the currency translation adjustment included as a separate component of the net investment in a foreign operation upon a sale or complete, or substantially complete, liquidation of the related investment. Under FAS 52, no gains or losses are recognized as a result of capital transactions, including the payment of dividends. Under Canadian GAAP, the Company is required to realize a gain or loss equal to the appropriate portion of the cumulative translation adjustment account when there is a reduction in the Company's net investment in a foreign subsidiary resulting from the payment of dividends.

[h] Statements of Income

The following table presents net income and earnings per share information following U.S. GAAP:

(Canadian dollars in thousands, except per share and share figures)	2002	2001	2000
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under Canadian GAAP	**$ 83,840**	$ 88,795	$ 84,894
Adjustments:			
Change in fair value of derivative instruments	**2,437**	2,366	–
Amortization of deferred preproduction costs	**882**	873	860
Stock-based compensation on stock options issued for consulting services	**(377)**	(391)	–
Unrealized exchange gain (loss) on translation of foreign currency denominated long-term debt	**265**	(384)	23
Translation (gains) losses realized on the reduction of the net investment in foreign subsidiaries	**(185)**	3,372	–
Compensation expense on repurchase of stock options	**–**	(417)	(3,223)
Income tax provision adjustment under the liability method	**–**	–	1,644
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under U.S. GAAP	**$ 86,862**	$ 94,214	$ 84,198
Earnings per Class A Subordinate Voting Share or Class B Share under U.S. GAAP			
Basic	**$ 2.95**	$ 3.22	$ 2.93
Diluted	**$ 2.91**	$ 3.19	$ 2.87
Weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year (in thousands)			
Basic	**29,454**	29,214	28,766
Diluted	**29,829**	29,558	29,322

[i] Comprehensive Income

(Canadian dollars in thousands)	2002	2001	2000
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under U.S. GAAP	**$ 86,862**	$ 94,214	$ 84,198
Adjustments:			
Unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations	**20,638**	(4,025)	(7,829)
Adjustment for derivative instruments matured during 2002, included in the cumulative adjustment at July 31, 2001	**(1,266)**	–	–
Cumulative adjustment to derivative instruments	**–**	2,530	–
Comprehensive income attributable to Class A Subordinate Voting Shares and Class B Shares under U.S. GAAP	**$ 106,234**	$ 92,719	$ 76,369

[j] Balance Sheet Items

The following table presents items in the consolidated balance sheets that would have been significantly affected had the consolidated financial statements been prepared under U.S. GAAP:

	2002	2001
(Canadian dollars in thousands)		
Prepaid expenses and other	$ 21,440	$ 18,590
Future tax liabilities	$ 40,860	$ 35,602

The following table presents shareholders' equity under U.S. GAAP:

	2002	2001
(Canadian dollars in thousands)		
Class A Subordinate Voting Shares	$ 286,613	$ 187,229
Class B Shares	2,583	2,583
Retained earnings	324,017	255,851
Accumulated other comprehensive income	10,095	(9,277)
	$ 623,308	$ 436,386

[k] Stock-Based Compensation

The Company does not recognize compensation expense for its outstanding fixed price stock options. Under U.S. GAAP FAS 123, the Company is required to make proforma disclosures of net income attributable to Class A Subordinate Voting Shares and Class B Shares and basic and diluted earnings per Class A Subordinate Voting Share or Class B Share as if the fair value method of accounting prescribed therein had been applied.

The Company estimates the fair value of stock options at the date of grant using the Black Scholes option pricing model. No fair value estimates were made during 2002 as the Company did not grant any additional stock options during the year ended July 31, 2002. The estimated fair value of options granted in the comparative periods were determined using the following weighted average assumptions:

	2001	2000
Risk free interest rate	5.7%	5.9%
Expected dividend yield	2.4%	2.4%
Expected volatility	32%	31%
Expected life of options (years)	5	5

The Black Scholes option valuation model used by the Company to determine fair values, as well as other currently accepted option valuation models, were developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Since the Company's outstanding stock options have characteristics that are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Additionally, under FAS 123, the methodology for calculating compensation expense on stock options surrendered for a cash payment requires the Company to exclude the intrinsic value of the stock option immediately before the settlement from the amount of compensation cost recognized.

Accordingly, for purposes of proforma disclosures, the Company's net income attributable to Class A Subordinate Voting Shares and Class B Shares and basic and diluted earnings per Class A Subordinate Voting Share or Class B Share would have been as follows:

	2002	2001	2000
(Canadian dollars in thousands, except per share figures)			
Proforma net income attributable to Class A Subordinate Voting Shares and Class B Shares under U.S. GAAP	**$ 85,631**	$ 92,910	$ 85,584
Proforma earnings per Class A Subordinate Voting Share or Class B Share			
Basic	**$ 2.91**	$ 3.18	$ 2.98
Diluted	**$ 2.87**	$ 3.14	$ 2.92

[l] Recently Issued Pronouncements

Under Staff Accounting Bulletin 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates.

Canadian GAAP standards and guidelines:

In December 2001, the CICA amended Handbook Section 1650 "Foreign Currency Translation" (CICA 1650). The most significant change under the new recommendations is to eliminate the deferral and amortization method for unrealized translation gains and losses on non-current monetary assets and liabilities. The amendments to CICA 1650 are effective for fiscal years beginning on or after January 1, 2002.

In November 2001, the CICA issued Handbook Section 3870, "Stock Based Compensation and Other Stock Based Payments" (CICA 3870). CICA 3870 requires that certain types of stock-based compensation arrangements be accounted for at fair value giving rise to compensation expense. The new recommendations are effective for fiscal years beginning on or after January 1, 2002 and are applicable to awards granted on or after the date of adoption.

In December 2001, the CICA issued Accounting Guideline ACG-13, "Hedging Relationships" (ACG-13). ACG-13 establishes certain conditions that must exist at the inception of a hedge in order to apply hedge accounting under Canadian GAAP and are consistent with the criteria that currently are required in order to apply hedge accounting under U.S. GAAP. The new guideline is applicable to fiscal years beginning on or after July 1, 2003.

The Company is currently reviewing the new CICA pronouncements. The impact, if any, of these pronouncements on the Company's consolidated financial statements has not been determined.

U.S. GAAP standards:

During fiscal 2002, FASB issued Statements of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143) and No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144).

FAS 143 requires that legal obligations arising from the retirement of tangible long-lived assets, including obligations identified by a company upon acquisition and construction and during the operating life of a long-lived asset, be recorded and amortized over the asset's useful life using a systematic and rational allocation method. FAS 143 is effective for fiscal years beginning after June 15, 2002.

FAS 144, which supersedes FAS 121, is effective for fiscal years beginning after December 15, 2001. FAS 144 provides guidance on differentiating between assets held for sale and held for disposal other than by sale. Consistent with FAS 121, FAS 144 continues to require the same approach for recognizing and measuring the impairment of assets to be held and used.

The Company is currently reviewing the new FASB pronouncements. The impact, if any, of these pronouncements on the Company's consolidated financial statements has not been determined.

21. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain other comparative figures have been reclassified to conform to the current year's method of presentation.

QUARTERLY RESULTS OF OPERATIONS

(Quarterly figures unaudited)

(Canadian dollars in thousands, except per share and share figures)

FOR THE YEAR ENDED JULY 31, 2002

	October 31	January 31	April 30	July 31	Total
Sales	$ 316,907	$ 317,727	$ 359,607	$ 347,375	**$ 1,341,616**
Net income	$ 22,038	$ 14,430	$ 24,915	$ 22,457	**$ 83,840**
Basic EPS	$ 0.75	$ 0.49	$ 0.85	$ 0.76	**$ 2.85**
Diluted EPS	$ 0.75	$ 0.49	$ 0.84	$ 0.74	**$ 2.81**
Weighted average number of shares outstanding on a diluted basis (millions)	29.6	29.7	29.8	30.3	**29.8**

FOR THE YEAR ENDED JULY 31, 2001

	October 31	January 31	April 30	July 31	Total
Sales	$ 302,107	$ 282,292	$ 313,265	$ 304,480	$ 1,202,144
Net income	$ 22,761	$ 17,800	$ 22,616	$ 25,618	$ 88,795
Basic EPS	$ 0.78	$ 0.61	$ 0.77	$ 0.88	$ 3.04
Diluted EPS	$ 0.77	$ 0.60	$ 0.77	$ 0.86	$ 3.00
Weighted average number of shares outstanding on a diluted basis (millions)	29.6	29.5	29.5	29.7	29.6

FOR THE YEAR ENDED JULY 31, 2000

	October 31	January 31	April 30	July 31	Total
Sales	$ 279,424	$ 266,834	$ 303,672	$ 277,855	$ 1,127,785
Net income	$ 19,844	$ 20,709	$ 24,886	$ 19,455	$ 84,894
Basic EPS	$ 0.69	$ 0.73	$ 0.86	$ 0.67	$ 2.95
Diluted EPS	$ 0.68	$ 0.71	$ 0.85	$ 0.66	$ 2.90
Weighted average number of shares outstanding on a diluted basis (millions)	29.3	29.2	29.3	29.5	29.3

10-YEAR FINANCIAL SUMMARY

OPERATIONS DATA

Years ended July 31st	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
(Canadian dollars in millions, except per share and share amounts)										
Sales	**$ 1,341.6**	$ 1,202.1	$ 1,127.8	$ 893.7	$ 645.9	$ 551.5	$ 455.6	$ 344.9	$ 280.3	$ 223.8
Income before litigation settlement, equity losses, income taxes and minority interest	**$ 128.1**	$ 124.2	$ 133.6	$ 84.5	$ 59.5	$ 45.7	$ 35.3	$ 30.9	$ 31.7	$ 25.3
Net income	**$ 83.8**	$ 88.8	$ 84.9	$ 52.3	$ 29.7	$ 26.5	$ 19.5	$ 14.8	$ 19.5	$ 22.3
Net income attributable to Class A Subordinate Voting Shares and Class B Shares	**$ 83.8**	$ 88.8	$ 84.9	$ 52.3	$ 26.8	$ 24.6	$ 18.5	$ 14.8	$ 19.5	$ 22.3
Earnings per Class A Subordinate Voting Share or Class B Share										
Basic	**$ 2.85**	$ 3.04	$ 2.95	$ 1.83	$ 1.14	$ 1.31	$ 1.03	$ 1.04	$ 1.37	$ 1.57
Diluted	**$ 2.81**	$ 3.00	$ 2.90	$ 1.79	$ 1.06	$ 1.15	$ 0.93	$ 1.02	$ 1.37	$ 1.57
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding (millions)										
Basic	**29.5**	29.2	28.8	28.5	23.4	18.8	18.0	14.2	14.2	14.2
Diluted	**29.8**	29.6	29.3	29.2	29.1	25.6	24.3	14.5	14.2	14.2
Cash flow from operating activities	**$ 143.7**	$ 73.5	$ 147.2	$ 93.8	$ 52.0	$ 32.0	$ 38.1	$ 29.6	$ 23.5	$ 37.8
Cash dividends paid per Class A Subordinate Voting Share or Class B Share (1)	**$ 0.64**	$ 0.64	$ 0.545	$ 0.31	$ 0.22	$ 0.20	$ 0.15	–	–	–

FINANCIAL POSITION

As at July 31st	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
(Canadian dollars in millions, except per share amounts and ratios)										
Cash (net of bank indebtedness)	**$ 146.7**	$ 51.0	$ 92.9	$ 48.0	$ 38.0	$ 68.3	$ 28.6	$ 37.9	$ (3.0)	$ 5.5
Total assets	**$ 959.4**	$ 758.3	$ 712.7	$ 607.3	$ 399.3	$ 349.5	$ 258.4	$ 245.8	$ 127.5	$ 101.6
Capital expenditures	**$ 122.0**	$ 97.6	$ 81.9	$ 69.7	$ 65.0	$ 48.1	$ 29.2	$ 28.3	$ 15.8	$ 7.1
Long-term debt (excluding current portion)	**$ 75.2**	$ 77.2	$ 75.0	$ 82.3	$ 14.0	$ 13.4	$ 15.9	$ 20.2	$ 34.5	$ 48.2
Convertible Series Preferred Shares	**$ –**	$ –	$ –	$ –	$ –	$ 57.2	$ 64.1	$ 61.1	$ –	$ –
Shareholders' equity	**$ 619.2**	$ 434.2	$ 367.2	$ 303.5	$ 261.5	$ 174.9	$ 83.4	$ 71.7	$ 38.7	$ 20.2
Book value per Class A Subordinate Voting Share or Class B Share (2)	**$ 19.17**	$ 14.84	$ 12.61	$ 10.61	$ 9.17	$ 7.66	$ 4.65	$ 3.99	$ –	$ –
Long-term debt (excluding current portion) to total capitalization ratio (3)	**0.11:1**	0.15:1	0.17:1	0.21:1	0.05:1	0.07:1	0.16:1	0.22:1	0.47:1	0.70:1

(1) Excluding all dividends paid prior to the completion of the Company's initial public offering in July 1995.
(2) Numbers prior to the completion of the Company's initial public offering in July 1995 are not meaningful.
(3) Total capitalization is the sum of long-term debt (excluding current portion) and shareholders' equity.

SHAREHOLDER INFORMATION

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Thursday, December 5, 2002 at the Design Exchange, 234 Bay Street, Toronto, Ontario, Canada, commencing at 10:30 a.m.

Transfer Agents and Registrars

Canada – Class A: Computershare Trust Company of Canada
Telephone: 514 982-7270 / 1 800 564-6253
Mail: 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1
e-mail: caregistryinfo@computershare.com
U.S.A. – Class A: Computershare Trust Company, Inc.,
Telephone: 303 986-5400
Mail: 350 Indiana Street, Suite 800, Golden, Colorado, 80401

For shareholder inquiries, (address changes, stock transfers, registered shareholdings, dividends and lost certificates), please contact the transfer agent directly.

Principal Bankers

Canadian Imperial Bank of Commerce, Toronto, Canada

Auditors

Ernst & Young LLP, Toronto, Canada

Dividends

The current quarterly dividend rate is set at $0.16 per share. Cash dividends are paid quarterly on or about the 15th of October, January, April and July in each fiscal year with a record date on or about the last business day of September, December, March and June (subject to approval by the Board of Directors).

Payment of Dividends to Non-Residents

Shareholders with addresses of record in the United States receive dividends in U.S. funds. The dividend amount is converted at the Bank of Canada's noon rate of exchange on the record date. All other non-resident shareholders may elect to receive dividends in U.S. or Canadian funds. In all cases, the applicable Canadian withholding tax is deducted.

Annual Information Form (AIF)/Form 40-F

The Company files an AIF with Canadian Provincial Securities Regulators and a Report on Form 40-F with the U.S. Securities and Exchange Commission. The AIF is available on the Tesma website at www.tesma.com or upon written request to the Company.

Corporate Governance

The Company has adopted certain structures and procedures to assist in the implementation of effective corporate governance practices and permit the Board of Directors to function independently of management. A Statement of the Company's current corporate governance practices (relative to the Toronto Stock Exchange guidelines for effective corporate governance) is contained in the management information circular and proxy statement for the December 5, 2002 Annual Meeting of Shareholders.

Investor Information

Inquiries regarding the Company or to be placed on our supplementary mailing list, fax list or e-mail list to receive Tesma's annual and quarterly reports or press releases, please contact Lynn Riley, Manager, Investor Relations at:
1000 Tesma Way, Concord, Ontario, L4K 5R8
Telephone: 905 417-2160   Fax: 905 417-2148   e-mail: lynn.riley@tesma.com

STOCK EXCHANGE LISTINGS

The Company's Class A Subordinate Voting Shares are listed on the Toronto Stock Exchange (TSX) – TSM.A and NASDAQ – TSMA.

ISSUED AND OUTSTANDING SHARES

As at July 31, 2002

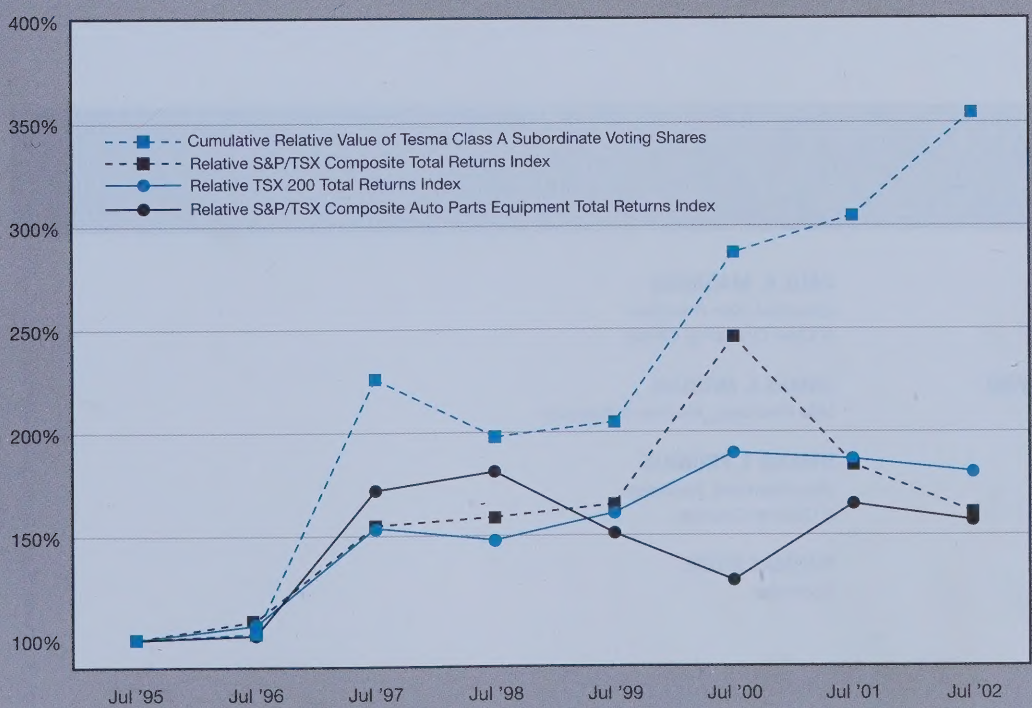
Class A Subordinate Voting Shares (one vote per share)	18,074,779
Class B Shares (10 votes per share)	14,223,900

Magna International Inc. owns, directly and indirectly, all Class B Shares carrying approximately 88.7% of the total votes attaching to all outstanding voting shares of the Company.

CLASS A SUBORDINATE VOTING SHARE STOCK PERFORMANCE (CLOSING PRICES)

TSX (CDN$)		August	September	October	November	December	January	February	March	April	May	June	July
High	**FY02**	**$29.92**	**$27.00**	**$30.00**	**$30.30**	**$30.00**	**$31.80**	**$33.40**	**$36.90**	**$35.00**	**$36.74**	**$39.35**	**$35.05**
	FY01	$28.00	$31.90	$31.00	$29.25	$26.50	$25.60	$27.00	$31.00	$30.94	$34.01	$33.92	$31.00
Low	**FY02**	**$26.59**	**$24.45**	**$25.75**	**$28.15**	**$28.00**	**$29.50**	**$31.35**	**$31.75**	**$33.20**	**$35.00**	**$35.30**	**$31.27**
	FY01	$25.60	$26.00	$26.10	$24.45	$21.00	$21.60	$24.45	$24.50	$25.75	$28.80	$29.50	$28.50
Close	**FY02**	**$27.00**	**$25.57**	**$29.15**	**$28.90**	**$29.79**	**$31.80**	**$33.00**	**$32.55**	**$34.50**	**$36.10**	**$34.76**	**$32.75**
	FY01	$26.80	$27.25	$28.30	$26.50	$24.75	$24.30	$27.00	$26.50	$30.94	$31.00	$31.00	$28.60
NASDAQ (US$)													
High	**FY02**	**$18.86**	**$17.45**	**$19.19**	**$18.93**	**$19.05**	**$20.15**	**$21.10**	**$23.35**	**$22.10**	**$23.90**	**$25.68**	**$23.06**
	FY01	$19.00	$22.00	$20.75	$18.75	$17.37	$17.00	$16.86	$19.36	$19.85	$22.25	$22.00	$20.15
Low	**FY02**	**$17.32**	**$15.50**	**$16.44**	**$17.87**	**$18.28**	**$18.30**	**$19.75**	**$20.11**	**$20.62**	**$22.47**	**$22.83**	**$19.69**
	FY01	$17.25	$18.00	$18.69	$16.50	$13.69	$14.31	$15.13	$16.00	$16.00	$19.85	$18.93	$18.52
Close	**FY02**	**$17.32**	**$16.04**	**$18.93**	**$17.87**	**$18.39**	**$20.09**	**$20.30**	**$21.70**	**$21.77**	**$23.60**	**$22.90**	**$20.54**
	FY01	$18.00	$18.44	$20.25	$17.38	$16.13	$17.00	$16.88	$16.13	$19.85	$20.18	$18.93	$18.86

SEVEN-YEAR CUMULATIVE RELATIVE TOTAL RETURNS



BOARD OF DIRECTORS

MANFRED GINGL
A director since July 1995
Vice Chairman & Chief Executive Officer
Tesma International Inc.
Executive Vice Chairman
Magna International Inc.

GEORG GRAMMER
A director since March 1997
Chairman of the Supervisory Committee
Grammer AG

OSCAR B. MARX, III[4]
A director since July 1995
Chairman & CEO
Amerigon Incorporated
Vice-President, Automotive Sector
TMW Enterprises

HON. DAVID R. PETERSON, PC, QC [4][5]
A director since February 2002
Senior Partner & Chairman
Cassels Brock & Blackwell LLP

FRANK STRONACH [1]
A director since April 1995
Chairman of the Board
Magna International Inc.

BELINDA STRONACH[3]
A director since December 2001
President & Chief Executive Officer
Magna International Inc.

JUDSON D. WHITESIDE[2][5]
A director since July 1995
Chairman & Chief Executive Officer
Miller Thomson LLP

SIEGFRIED WOLF
A director since June 2002
President & Chief Executive Officer
Magna Steyr
Executive Vice Chairman
Magna International Inc.

HON. M. DOUGLAS YOUNG, P.C.
A director since July 2002
Chairman
Summa Strategies Canada Inc.

(1) Chairman of the Board of Directors
(2) Chairman of the Audit Committee
(3) Chairman of the Human Resources and Compensation Committee
(4) Member of the Audit Committee
(5) Member of the Human Resources and Compensation Committee

OFFICERS

MANFRED GINGL
Vice Chairman
& Chief Executive Officer

ANTHONY E. DOBRANOWSKI
President
& Chief Financial Officer

PASQUALE CERULLO
Executive Vice President,
Sales, Marketing &
Corporate Development

PAUL A. MANNERS
Executive Vice President
& Chief Operating Officer

JAMES L. MOULDS
Vice President, Finance & Treasurer

STEFAN T. PRONIUK
Vice President, Secretary
& General Counsel

THOMAS MORE
Controller

CORPORATE INFORMATION

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